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REPORT ON HEADQUARTERS OFFICE ACCOMMODATION

SUMMARY

The present report was prepared in response to Executive Board decision 1993/22 (E/ICEF/1993/14). As requested in that decision, the Executive Director has obtained from the United Nations Development Corporation/New York City and from the City of New Rochelle firm offers for UNICEF headquarters. The offers, the full texts of which will be made available to Board members, are summarized in the annex to the present report.

As requested by the Executive Board, the Executive Director has analysed those offers with the input of an independent real estate consultancy firm. The executive summary of the firm's report, the full text of which will be made available to Board members, can be found in the annex.

To facilitate Board members' reading of the present report and of the various specialist reports, a glossary of technical terms can be found on pages 3-6. Following a brief introduction, chapter I provides a discussion of the various options requested in decision 1993/22. The financial and non-financial implications of these options are contained in chapters II and III, respectively. The Executive Director's conclusions can be found in chapter IV.

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GLOSSARY

Aggregate costs
The total of all costs for occupancy over the term of the analysis, presented in United States dollars.

Allowance
Money set aside for use by an occupier of space to cover the costs associated with relocating and/or occupying space (i.e. moving allowance, build-out allowance, telecommunication allowance, etc.).

Assignment
This is the method or manner by which a right or contract is transferred from one person to another.

Average annual costs
This term relates to the sum of costs divided by the term in years of the analysis, presented in United States dollars per year.

Base rent
The minimum rent due for property under a lease agreement.

Bonds
A financial (debt) instrument whereby the party that issues the bonds agrees to pay them back at a specific point in time, and until such time as the bonds are paid the party that issued the bonds pays an agreed interest rate to the holders of the bond.

Build-out allowance
See "fit-out" and "allowance".

Build-to-suit
A method in a lease or sale agreement by owner/developer to construct a facility or space in accordance with tenant's agreed specifications.

Building or space efficiency
The ratio of plannable area (area which may accommodate the tenant's requirements for personnel, furniture and support space) to rentable area, which can vary greatly due to differences in landlord's measurement methods. The space efficiency ratio is calculated by dividing the usable area by the rentable area.

Capital
Cash, letter of credit or security that is readily converted to cash.

Capital-related costs
Costs associated with "capital items" such as buildings, interior improvements and other assets that have a long usable life.

Condemnation
A method of acquiring for public benefit the use and/or ownership of a property by a qualified governmental entity.

Condominium
A method of ownership whereby the property owner holds title to a portion of the interior space of a building but is a joint owner (with others) of the land upon which the building is situated.

Discount rate
A percentage rate used to compute the present value of a future cash flow.

Equity
The interest or value which the owner has in real estate over and above the liens against it.

Fit-out
The construction of interior building improvements for use by a tenant. This is also referred to as a build-out or "TI" (tenant improvement).

Floor configuration
Design and layout of a floor.

Floor plate consistency
The degree to which individual floors in a building or buildings conform to one another.

Foreclosure sale
Sale which occurs on the foreclosure of a property.

Lease
A contract whereby, for a consideration, usually termed rent, one who is entitled to the possession of real property transfers such rights to another for life, for a term of years, or at will.

Lessee
A person to whom property is rented under a lease.

Lessor
One who rents property to another under a lease.

Local market
The real estate market for a specified area (i.e. the New Rochelle "local market").

Loss factor
The loss in space, as determined by subtracting the usable square footage from the rentable square footage, divided by the rentable square feet and multiplied by 100.

Master lease
A lease between a landlord and a tenant that is established and in force prior to the tenant subleasing the space to another occupier.

Net present value (NPV)
Similar to present value, except that any tax impacts have been netted out.

New York City Economic Development Corporation (NYCEDC)
An entity established by the City of New York to promote the economic development of the city.

New York Uniform Land Use Review Procedure (ULURP)
Specification 197-c of the New York City Charter which governs the review of a variety of land-use actions, including special permits and zoning map amendments.

Nominal costs
Non-discounted costs.

Operating escalation
The amount of operating expenses in a period that exceeds the prior period's operating expenses.

Operating expenses
The expenses essential to operating a property, including repairs and maintenance, utilities, taxes, insurance, management fees, contract services and supplies.

Ownership
Holding title to a specific facility.

Present value (PV)
The present value of the cash flow of an investment discounted at a rate representative of the earning power of cash. Also known as present value if no initial cash investment is made.

Rentable area
The square footage on which rent is paid. This should be the gross area contained on a floor less penetrations such as elevator, mechanical shafts and fire stair. Rentable area may be calculated using various methods, but is typically expressed as the product of the usable area times an "add on" factor (or conversely, a "loss factor") which accounts for the tenant's proportionate share of a building or support areas.

Residual value
The amount of cash received for any asset upon the sale of any asset (after all costs associated with the sale have been netted out).

Salvage value
The amount realized upon the final sale of an asset at the end of its useful life.

Space-loss factor
The area within a building that is not usable for normal office operations (i.e. lobbies, elevator shafts, utility rooms, etc.). See also "loss factor" and "rentable area".

Standardized module
Office or cubicle space which is designed and prefabricated and produces a consistent individual area configuration.

Subleasing
The leasing of a property by a tenant of the property.

Tenant extras
Tenant costs on items above the standard agreed level.

Underfloor ducts
Channels constructed under the flooring of an office area and utilized to convey electric wiring and cabling.

United Nations Development Corporation (UNDC)
An entity established for the development of the United Nations district area for the City of New York.

United Nations district
The area along the East River where the United Nations has been located since the late 1940s. This includes the buildings along Second Avenue which have since attracted international and United Nations-related office tenants, and in addition to this the blocks in the forties east of Second Avenue containing many embassy and consulate offices.

Usable area
The floor area allocated for the exclusive use of the occupant. This should be the gross area contained on a floor less penetrations and areas shared by more than one tenant such as public corridors, rest rooms, elevator lobbies, mechanical and electrical rooms, and janitor closets.

INTRODUCTION

1. The Executive Board last discussed the subject of UNICEF headquarters office accommodation at its 1993 regular session. At that time, the Executive Board, after extensive discussion, adopted decision 1993/22 (E/ICEF/1993/14) in which the Executive Director was requested to obtain from the United Nations Development Corporation (UNDC)/New York City and the City of New Rochelle firm offers which should include guaranteed space availability at a minimum of 40,000 square feet starting 1 August 1995, guaranteed financial arrangements, firm costed offers for full or condominium ownership and building(s) or portions of building(s) and common validity dates for the following options:

(a)	UNDC/New York City (United Nations Development District)	(i) single location	- (owned)
		(ii) twin locations	- (both owned)
		(iii) twin locations	- UNICEF House (owned) - other Manhattan (rented)
(b)	New Rochelle	single location	- (owned)
(c)	New Rochelle/UNDC	twin locations	- New Rochelle (owned) - Manhattan (rented).

2. The Board also requested the Executive Director to analyse each of those final and firm offers with the input of an independent real estate consultant, taking into consideration: nominal costs; net present value; estimated residual value; the implications of subleasing excess office space; indirect costs, inter alia, extra travel and communications quantified to the extent possible; and non-financial factors such as implications for delegations and UNICEF staff and the working relations between UNICEF and the rest of the United Nations system.

3. This is the fifth document the Executive Director has prepared on headquarters office accommodation since 1990 (earlier documents were E/ICEF/1990/AB/L.9, E/ICEF/1991/AB/L.9, E/ICEF/1992/AB/L.9 and E/ICEF/1993/AB/L.9). The report of the Committee on Administration and Finance, as contained in the report of the Executive Board on its regular session in 1993, stated, inter alia:

> "After four years of review and consideration of various proposals, there was almost unanimous agreement among delegations that it is imperative that a final decision be taken this year. The secretariat concurred with this view, as particular concern is directed to such economic factors as a possible increase in interest rates; improvement in the real estate market and general economic conditions, which would result in higher costs; the possible impact on the organization's credibility and its vulnerability to criticism in its efforts to rationalize its premises; and the total cost implications of postponing the decision." 1/

4. Since the regular session of the Executive Board, the Executive Director has made considerable effort to ensure that all relevant additional information be made available, in a clear and concise manner, for the current special session.

5. Senior secretariat staff have worked closely with the New York City Economic Development Corporation (NYCEDC)/UNDC and the City of New Rochelle to ensure that the firm and final offers conform as much as possible with the Executive Board's criteria as set out in decision 1993/22. This has involved meetings with representatives of both cities; close study and analysis of the proposals submitted; and, in both cases, a series of follow-up questions to ensure that all aspects have been adequately covered.

6. As requested by the Executive Board, the secretariat engaged the services of a top independent real estate consultancy firm to assist in the preparation of this report. Highly reputable and well regarded, the firm provides advisory services in international real estate to Governments, corporations and financial institutions world wide. This is the same firm that has assisted UNICEF with this project over the past three years. On its recommendation, a highly prestigious company, specializing in architectural and engineering surveys and costing, and frequently consulted by the Government of the United States of America, was contracted to review the various proposals submitted for consideration.

7. In addition, both the secretariat and the real estate consultancy firm identified some additional adjustments that were required in order to enable a level comparison of the options. These included:

(a) Uniformity of approach towards calculation of the residual value;

(b) Application of local market and specific property characteristics to assess more accurately the potential for sublease income;

(c) An estimate - produced with the assistance of UNICEF staff - for each option of the quantifiable costs and benefits relating to staffing, telecommunications, computer operations and transportation;

(d) Uniformity of approach towards measurement of the space to be occupied.

8. The executive summary of the report of the real estate consultancy firm, including its summary of the report of the architectural and engineering firm, is annexed to the present report. The real estate consultancy firm also summarized the proposals from NYCEDC/UNDC and from the City of New Rochelle, and these are also included in the annex. The full texts of all these reports, in English, are available to Executive Board members upon request to the Office of the Secretary of the Executive Board. The reports have also been submitted, for information, to the Advisory Committee on Administrative and Budgetary Questions.

9. In addition, consultations have been held with the United Nations Office of Legal Affairs in relation to the Headquarters Agreement between the United Nations and the United States of America. As a result, questions related

to freedom of travel, security and police protection and telecommunications, if UNICEF headquarters were to be located outside New York City, were raised with the Permanent Mission of the United States of America to the United Nations.

10. In a letter dated 13 July 1993, Ambassador Madeleine K. Albright, the Permanent Representative of the United States to the United Nations, responded:

> "... As you know, certain privileges, immunities, benefits and exemptions contained in the Headquarters Agreement between the United States and the United Nations are accorded in reference to a defined United Nations headquarters district. The Headquarters Agreement anticipated the possibility of additions to the headquarters district and made provision for supplemental agreements between the United States and the United Nations. The United States and the United Nations have concluded three such supplemental agreements and we would be willing to enter into negotiations to conclude a further agreement, as necessary, should UNICEF relocate its headquarters. The matters you have raised, such as security protection, could be addressed in the supplemental agreement. In reference to your specific question about travel controls, with regard to a location in New Rochelle, the personal travel of nationals of two countries, Iraq and Libya, is restricted to the five boroughs of New York City. These restrictions, however, do not apply to travel by Iraqi or Libyan nationals for official United Nations business, which is permitted to them on the same basis as to nationals of all United Nations Member States ...".

11. UNICEF headquarters staff were invited to complete a questionnaire on their current residential location in an attempt to assess the impact of relocation outside Manhattan. This survey indicated that about 66 per cent of the staff live in New York City and that their commuting preference is for short distances at low cost.

12. In reviewing the firm and final offers, which are discussed below, the Executive Director has borne in mind that in making a decision on the location of its headquarters, the bottom line for UNICEF must be which location can contribute the most to its success in improving the well-being of children and women. The contribution of UNICEF to this end is in part its financial support of projects and programmes, in part the quality of UNICEF management of all resources - financial and non-financial - available to it, and finally, and very importantly, its advocacy work, which helps mobilize others to devote their vastly greater resources and leadership so that particular beneficial activities can go to scale. UNICEF has a reputation for being quick to respond to the changing needs of developing countries, donors and other parties and efficient in its capacity to respond to its field offices. The value of the efficiency and effectiveness of UNICEF must be measured not only in terms of financial income and expenditure, but also, and even more importantly, in terms of thousands of lives saved and basic services provided to millions of children every day. This is well illustrated by the successful world-wide immunization effort, now saving the lives of more than 3 million children every year, in which UNICEF advocacy and effective management support were even more important to its success than its significant financial contribution of approximately 10 per cent of the overall costs. In short, a decision on headquarters location needs to take into account its impact on all three factors: financial

questions; non-financial implications, with particular reference to management and efficiency; and the effect on UNICEF advocacy work.

I. DISCUSSION OF OPTIONS REQUESTED IN DECISION 1993/22

13. The Executive Director proposes to comment on the options in the order in which they are listed in decision 1993/22, giving a breakdown of the significant advantages and disadvantages of each property under consideration. In specialist real estate areas, of course, he relies on the input of the real estate consultancy firm.

A. UNDC/New York City (United Nations Development District)

14. The common aspects of the NYCEDC/UNDC offer which cover all the properties (except rental options) are:

(a) The offer assures UNICEF of a fixed base lease cost per square foot over the long term, and thus protects it from the possible risk of rising rates in the real estate market. After the bonds have been paid off in 30-32 years, ownership of the leased property would be transferred to UNICEF;

(b) The annual net rent occupancy costs are calculated on the basis of funding the acquisition and capital-related costs of any of the properties offered with tax-exempt bonds issued by NYCEDC/UNDC. The bonds are scheduled to mature in 30 years and the interest rate is estimated at 6 per cent. The annual fixed lease cost is subject to adjustment if there is a change in the interest rate before the commencement date of the lease, or if the required fit-out for UNICEF occupancy exceeds the offered allowance of $35.00 per square foot at any of the expansion buildings. A change in the interest rate by 0.25 per cent would equate to a change in the net annual rent of $0.65 per square foot at 685 Third Avenue and $0.75 per square foot at 845 United Nations Plaza or 633 Third Avenue. A change of $0.60 per square foot in the net annual rent would be made for every $1,000,000 change in the build-out allowance for any of the expansion space properties. These adjustments could be made upwards or downwards;

(c) NYCEDC/UNDC could only guarantee occupancy of a minimum of 40,000 square feet by August 1995 if the master lease purchase agreement between NYCEDC/UNDC and UNICEF were executed by no later than 1 January 1994. Beyond that date, NYCEDC/UNDC believe that occupancy by August 1995 could not be assured and the costs might increase;

(d) If, in the future, UNICEF and other United Nations agencies opted to consolidate to a newly expanded United Nations district in New York City, under any of the options UNICEF would be relieved of its lease obligations both at UNICEF House and at the expansion property;

(e) Any of the three expansion properties eventually selected by UNICEF would be exempt from real property taxes;

(f) Any costs for base building improvements for any of the owned expansion properties in excess of the amounts proposed in the offer will be paid by NYCEDC/UNDC at no additional cost to UNICEF;

(g) Transfer of ownership of any of the properties would be effected upon the date on which all of the NYCEDC/UNDC bonds are paid, i.e. about 1 July 2026 for the twin location options and 31 December 2023 for the single location options. Transfer of ownership is conditional upon UNICEF or the United Nations occupying all the space and UNICEF headquarters being located in New York City when transfer of ownership takes place.

15. Other aspects of the NYCEDC/UNDC offer are as follows:

(a) Up to $1.25 million is offered for the conversion to office space of the residential floors 14-15 at UNICEF House. If the conversion is not effected, the funds can be used towards the acquisition or build-out costs of any of the expansion properties selected. The net annual occupancy costs for any of the options where floors 14-15 were not converted already reflect the additional $1.25 million contribution. NYCEDC/UNDC will pay the costs, if any, for the conversion of floors 14-15 beyond the $1.25 million contribution but would increase the UNICEF House base lease rate for all the occupied space by $0.60 per square foot for each $1.0 million of such additional costs paid by NYCEDC/UNDC;

(b) In the case of 845 United Nations Plaza, as this property might have to be acquired through condemnation, NYCEDC/UNDC would work closely with UNICEF to obtain the necessary lease extension at One Dag Hammarskjöld Plaza and, if necessary, reimburse UNICEF for up to $5.00 per square foot in rent payable by UNICEF on this space in excess of amounts that would be payable by UNICEF at 845 United Nations Plaza, for any extension period;

(c) For UNICEF House and for 845 United Nations Plaza, a further condition for transfer of ownership would be to obtain City of New York Uniform Land Use Review Procedure (ULURP) approval. In an appendix to its submission on UNICEF House - the same would apply to 845 United Nations Plaza - NYCEDC/UNDC wrote:

> "Thus, the transfer of ownership of the property to UNICEF will require approval under ... ULURP. The first step in the ULURP process is the review of the possible environmental impact of the transfer, which should not require extensive studies. After completion of the environmental review, hearings on the transfer will be held first before the local Manhattan Community Board and then before the New York City Planning Commission, to which the Community Board and Manhattan Borough President will submit recommendations. The proposed transfer will then require approval by the City Planning Commission and possibly by the City Council";

(d) In response to a query by UNICEF, NYCEDC/UNDC provided the following clarification regarding its offer if UNICEF were to remain in Manhattan under any of the twin headquarters options:

(i) The reduction in rent proposed for UNICEF House, owing to a restructuring of its lease, would be effective 45 days prior to the date on which the master lease purchase agreements between UNICEF and

UNDC were executed. This would represent an additional savings to UNICEF of approximately $900,000 if agreements were signed with an effective date of reduced rental of 1 January 1994. For example, NYCEDC/UNDC would require that agreements be signed by 15 February 1994 if the effective date of the reduced rental rate were to be 1 January 1994;

(ii) If UNICEF were not to convert floors 14-15 of UNICEF House and if it were not to select any of the expansion properties, the rent at UNICEF House would be further reduced by $0.50 per square foot per year, thus crediting UNICEF with the $1,250,000 offered to convert floors 14-15;

(iii) An annual credit of $481,000 would be applied to any of the expansion properties or to reduce further the base rent at UNICEF House.

1. Single location (owned)

633 Third Avenue

16. Advantages. The advantages of this property are as follows:

(a) The comparatively large size of the building offers sufficient space to consolidate all of existing UNICEF headquarters: UNICEF House, 333 East 38th Street and One Dag Hammarskjöld Plaza. It also offers the possibility for accommodating other United Nations offices or divisions eventually;

(b) Its combination of vacant and occupied space is ideal, given the needs of UNICEF for staged expansion. Rents received from existing tenants would offset UNICEF lease payment obligations significantly;

(c) The building has a history of quality tenants, is well maintained and is in good condition;

(d) Its average floor size of approximately 19,000 rentable square feet appears ideal for UNICEF purposes. The building affords UNICEF an easily standardized module for more consistent floor-to-floor organizational planning and flexibility. Floor plate consistency would allow UNICEF to enjoy the benefits of economies of scale for planning, design and construction costs;

(e) The building is equipped with underfloor ducts, providing flexibility for computer, telephone and electrical installations;

(f) It is located within walking distance of the United Nations, the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA), with easy access to major shopping and restaurant facilities, as well as to Grand Central railroad terminal and the New York City subway system.

17. Disadvantages. The disadvantages of this property are as follows:

(a) As there would be insufficient space initially to accommodate all of its needs, UNICEF would be obliged to retain 90,000 square feet of space in UNICEF House until 1999. Thus, for this period, UNICEF would not be able to enjoy the full benefits of consolidation, as it would be operating essentially in a twin headquarters mode;

(b) The location, from the viewpoint of proximity to the United Nations complex, is a 10-minute walk further away than the other alternatives in Manhattan;

(c) UNICEF would occupy only about two fifths of the building's total space and would therefore have less than a majority role in the overall management and image of the building;

(d) Owing to the size of the building, UNICEF would not have full occupancy, so that its headquarters identity would be less ideal than in a fully occupied single building;

(e) Floors 14-24 are served by the mid-rise elevators and floors 25-27 by the high-rise elevators, with no possibility of transfer except at lobby level;

(f) The building is currently subject to foreclosure. (For details, see the NYCEDC/UNDC submission.) NYCEDC/UNDC states, inter alia, that in January 1993 a New York court decided that a major insurance company, which had loaned funds to the building's owner, was entitled to foreclose its mortgage and to require as a result that the building be sold to the highest bidder at a foreclosure sale to be held after public notice of the sale in accordance with New York law and procedures. There is an appeal pending from this decision, but the appeal is not delaying mortgage foreclosure and sale. While the mortgage foreclosure proceeding is pending, a receiver appointed by the New York court at the insurance company's request manages the building. The foreclosure sale is expected to be scheduled shortly and to be completed later this year. When the sale is completed, the insurance company will have full control of the property and the earlier ownership will have been terminated. It is possible that as a result of negotiations in progress, the insurance company will obtain full control of the building even more quickly, without the necessity of the foreclosure sale. As a result of the insurance company's control of the building in the pending mortgage foreclosure proceeding as described above, NYCEDC/UNDC has negotiated with the insurance company to establish the general terms for purchase by NYCEDC/UNDC purchase of a condominium interest in the building for UNICEF use. NYCEDC/UNDC would also negotiate the terms of the final documents with the insurance company;

(g) UNICEF would be obliged to become a landlord with tenants on sublease, and would be responsible for rent collection, subleasing vacant space and assuring that all tenant services were provided;

(h) The existing lease obligations at UNICEF House and 333 East 38th Street would remain. If the lease obligations for UNICEF House and 333 East 38th Street had to be paid completely by UNICEF, the estimated

present value cost for the period 1995-2003 would be $52.7 million, of which $44.8 million relates to UNICEF House and $7.9 million to 333 East 38th Street.

685 Third Avenue

18. Advantages. The advantages of this property are as follows:

(a) UNICEF would occupy some two thirds of the total space and NYCEDC/UNDC would therefore be in a strong position to negotiate a favourable condominium agreement;

(b) As at 633 Third Avenue, the UNICEF space would remain partially occupied for some time, with income from existing tenancies offsetting part of the UNICEF lease payment obligations;

(c) The size of this building makes it ideal for occupancy by UNICEF and perhaps one or two other major United Nations entities. According to NYCEDC/UNDC, the purchase of this entire property could be accomplished on even more favourable economic terms than the purchase of a condominium interest, which would ultimately give UNICEF and the United Nations the opportunity to own a building very near United Nations Headquarters;

(d) Its location, one and one half blocks from UNICEF House, is good.

19. Disadvantages. The disadvantages of this property are as follows:

(a) As with 633 Third Avenue, there is insufficient space initially to accommodate all of UNICEF and, therefore, 22,000 square feet would need to be retained at UNICEF House until 1999, thus delaying full consolidation into one building;

(b) The comments of the architectural and engineering consultancy company are negative. The building is seen as technologically unsuitable, with very high levels of space loss of between 22 and 39 per cent, according to floor. The wire management system is insufficient for UNICEF use and the floor configuration is not well suited for the needs of UNICEF;

(c) Problems of identity would also occur here, with UNICEF located on floors 14-31;

(d) There would be sublease obligations similar to those of 633 Third Avenue;

(e) As with 633 Third Avenue, the lease obligations at UNICEF House and 333 East 38th Street would remain.

2. Twin locations (both owned)

UNICEF House

20. Advantages. The advantages of UNICEF House are as follows:

(a) The very considerable advantages resulting from negotiations with NYCEDC/UNDC, in relation to long-term lease and to eventual ownership of UNICEF House, were detailed in the Executive Director's report to the Executive Board at its regular session in 1993 (E/ICEF/1993/AB/L.9). These remain essentially the same, with some additional improvements that are highlighted in the report of the real estate consultancy firm;

(b) UNICEF is well established in UNICEF House, which was specifically designed for use by UNICEF. Since it was occupied in 1987, the building has proved to be functionally efficient and most suitable for the organization. Adjacency of divisions has been organized very effectively within and between floors;

(c) Independent outside consultants determined three years ago that its use of space was about 17 per cent more efficient than that of the typical New York City office building;

(d) It is in very close proximity to the United Nations Headquarters building and to UNDC buildings I and II, where UNDP, other United Nations departments and numerous permanent missions to the United Nations occupy space. The value of this proximity to the United Nations complex and of easy access to the permanent missions has been fully demonstrated;

(e) The first floor of the building is used for a UNICEF exhibit and for the sale of UNICEF greeting cards, open to the public in an ideal location near the United Nations;

(f) UNICEF has already invested some $7 million in equipment and infrastructure in the building;

(g) The building has an underfloor flexible duct system for efficient wire management for telephone, computer and electrical wires. It is also equipped with a sensor system for the conservation of electricity;

(h) Remaining in UNICEF House would avoid additional costs related to existing lease obligations;

(i) Remaining in UNICEF House would minimize the disruption of the normal work flow and save costs related to moving.

Conversion of residential floors 14 and 15

21. On the question of converting floors 14 and 15 to offices, the architectural and engineering consultancy company estimates that the two floors would yield some 19,000 square feet of usable space. The major problem would be with elevator access. At present, only the freight elevator serves all floors;

the office elevators serve floors 2-13, while the apartment elevators serve floors 14 and 15. The only existing crossover would be at lobby level.

22. The company lists a series of options that might ease this situation. Creating a crossover between the two elevator banks at floor 13 and/or undertaking work that would push one of the office bank elevators through to floors 14 and 15 are the major proposals. In all, the company estimates that the total cost of the work would be about $2 million, compared with the original estimate by NYCEDC/UNDC of $1.25 million.

633 Third Avenue

23. The relevant advantages listed in paragraph 16 above would remain valid. Some of the disadvantages would be reduced. The question of identity, for example, would be less important, given the continued flagship location in UNICEF House. UNICEF would still be obliged to become a landlord, with increased responsibilities, but fewer than if UNICEF had to take a larger part of the building.

685 Third Avenue

24. The disadvantages of this location remain valid under this option. In fact, they would be increased, as UNICEF would hold less than 50 per cent of the available space and would therefore be in a weaker position in relation to negotiating a favourable condominium agreement.

845 United Nations Plaza

25. Advantages. The advantages of this property are as follows:

(a) It overlooks the United Nations complex. If, in time, offices of the United Nations system were to expand along First Avenue, the site could easily be incorporated in the overall complex;

(b) UNICEF would eventually occupy the entire building, so that cohesion and identity, both within the building itself and with nearby UNICEF House, would be easy to establish and maintain. The building offers better security possibilities than the other alternatives;

(c) It contains its own auditorium, conference rooms, cafeteria and interior courtyard space;

(d) The building is equipped with underfloor ducts, providing UNICEF with flexibility in its computer, telephone and electrical installations;

(e) The office space-loss factor in this building is only 12.5 per cent, compared with 22.7 per cent at 633 Third Avenue and an average of 28.2 per cent at 685 Third Avenue.

26. Disadvantages. The disadvantages of this property are as follows:

(a) The building has been taken off the market because the owners do not want to sell it at this time because of the current depressed state of the real

estate market, so that acquisition would have to be through condemnation procedures by the City of New York. While NYCEDC/UNDC have indicated willingness to proceed with condemnation if the Executive Board chooses this building, the process could be lengthy and could involve NYCEDC/UNDC in litigation. This, however, should not result in delayed occupancy;

(b) The overall cost would be relatively high, although NYCEDC/UNDC would guarantee a maximum rental of $25.00 per square foot and a credit of up to $2.00 a square foot, depending upon UNDC continuing rent payments to New York City of $481,000 a year at UNICEF House. In addition, NYCEDC/UNDC estimate that the operating expenses would be from $2.00 to $2.50 per square foot higher per year than for either of the Third Avenue properties;

(c) Although unable to gain access to the building at this time, the architectural and engineering company had prior knowledge of the building and states that an earlier report "... citing generally poor conditions as a result of deferred maintenance seem(s) accurate. The elevators, mechanical and electrical systems indicated as the original 1962 equipment are likely in need of replacement, as recommended by the previous report." These additional costs would be absorbed by NYCEDC/UNDC. However, the work might delay or complicate occupancy by UNICEF;

(d) The sublease responsibilities for 333 East 38th Street would remain.

Space considerations

27. The question of space at 845 United Nations Plaza deserves careful review. According to the architectural and engineering consultancy company, over 40,000 of the building's 241,461 square feet are located in the two basement levels and would appear to be unsuitable for office space. In addition, there are large areas for common facilities (cafeteria, dining room, auditorium), which would further reduce space for offices. In 1995, UNICEF would need only 76,000 square feet, that is, sufficient space to house those headquarters divisions and sections currently located at 333 East 38th Street and at One Dag Hammarskjöld Plaza. The space not immediately required would be subleased for a time. Given the building's extremely attractive location, subleasing would probably be relatively easy.

28. UNICEF has estimated that it would need some 440,000 square feet by as early as 2010. If this estimate is correct, by that year the combined available space in 845 United Nations Plaza and in UNICEF House, even with the conversion of floors 14-15, would probably be well short of requirements.

29. However, the building possesses additional development rights for another 140,000 square feet, which would more than meet the estimated needs of UNICEF in 2010. Who would fund this construction, and what it would cost, are unanswered questions at this stage. In addition, the real estate consultancy firm estimates that the inconvenience for the building's occupants during construction would probably be protracted and considerable.

3. Twin locations: UNICEF House (owned) and other Manhattan (rented)

30. Under this option, firm costed offers could not be developed that would meet the criteria of providing premises to satisfy the projected long-term needs of UNICEF. As part of their offer, NYCEDC/UNDC had submitted an opportunity to lease one floor containing 38,000 square feet at 333 East 38th Street, where the Greeting Card and related operations are already located under a lease that will expire on 31 December 2003. In addition to the lease for the additional 38,000 square feet, which would run to April 2004 with option for renewal, options were provided for other floors with up to 160,000 square feet but which would not be available for occupancy until early 2004. Opportunities for leasing were also considered at one Dag Hammarskjöld Plaza, where UNICEF also occupies about 38,000 square feet of space until September 1995. To date, firm commitments for leased space past September 1995 have not been offered formally. Recent discussions with the landlord, however, do suggest that the 38,000 square feet currently leased could be extended to 2003 and an additional 70,000 square feet of space could be available for lease up to 2003.

31. The real estate consultancy firm, however, developed the figures to assimilate as closely as possible the renting of space in either One Dag Hammarskjöld Plaza or 333 East 38th Street, depending on the availability of space coinciding with the space needs of UNICEF.

333 East 38th Street

32. Advantages. The advantages of this location are as follows:

(a) Consolidation into a second site would be achieved, as this building already houses the Greeting Card and related operations, which have a lease until 31 December 2003. (It also houses the United States Committee for UNICEF.);

(b) The Executive Board may wish to keep UNICEF headquarters in a reasonably flexible position, in real estate terms, in view of the ongoing restructuring process within the United Nations development system, and especially in relation to the eventual location of sister agencies now based in New York. In this context, a rental as a medium-term option might have advantages;

(c) UNICEF would be able to reap the rich financial reward of the negotiations over UNICEF House, including future ownership, which would more than offset the costs of renting in 333 East 38th Street;

(d) If available, the one additional floor of about 38,000 square feet in 333 East 38th Street would accommodate all UNICEF offices currently in One Dag Hammarskjöld Plaza, allowing consolidation into two major sites. (The real estate consultancy firm estimates that this space would be sufficient for UNICEF needs until 1998, especially as it has observed vacant unbuilt space in the current premises of the Greeting Card and related operations. Conversion of floors 14-15 of UNICEF House to office space would extend this period several years.);

(e) Sufficient additional space for the ongoing needs of UNICEF would become available in 2004, should a long-term need then exist. While there is no guarantee at this stage, additional space, if required, might become available earlier;

(f) There would be no sublease obligations either at UNICEF House or 333 East 38th Street.

33. Disadvantages. The disadvantages of this location are as follows:

(a) UNICEF would not be taking advantage of the current low-priced real estate market to reach a permanent solution to its headquarters office accommodation problem. Only one building (UNICEF House) would eventually be owned, while the expansion space would only be rented, with no assurance of a fixed base rent for future years, when expansion would be required;

(b) The only space currently available at 333 East 38th Street is the eighth floor, consisting of about 38,000 square feet.

One Dag Hammarskjöld Plaza

34. This 49-storey building is located on Second Avenue between 47th and 48th Streets. Tenants include several permanent missions to the United Nations. UNICEF currently occupies 38,323 square feet on three upper floors under a sublease expiring in September 1995, which can be extended to 2003. The landlord has suggested that another 70,000 square feet can be provided, consisting of four floors, for lease up to 2003 (or whatever term is appropriate), with flexibility of availability to suit the needs of UNICEF.

B. New Rochelle - single location (owned)

35. Advantages. The advantages of this option are as follows:

(a) The City of New Rochelle has submitted a very comprehensive package, under which UNICEF headquarters would be the centrepiece of a proposed 15-acre United Nations community enclave;

(b) A modern building, tailored to UNICEF specifications, would be constructed. Very favourable financial conditions and eventual ownership by UNICEF are assured;

(c) The entire headquarters could be accommodated, gathering together staff from all current locations. Space for further growth would be assured;

(d) Proximity to the railroad station, an express bus network, car parks, adjacent housing, good medical facilities, a library and conference services and the location of the city near Long Island Sound are all considerable attractions. Land would be provided for a branch of the United Nations International School and a small building would be donated, perhaps to house a UNICEF children's library. (It is doubtful, however, that a full-fledged high school offering an international baccalaureate programme could be established immediately, given the limited demand for such a programme in New Rochelle.)

36. Disadvantages. The disadvantages of this location are as follows:

(a) The non-financial aspects of being located a significant distance from the United Nations Secretariat, other United Nations agencies and permanent missions located in New York City. These aspects, which are discussed in detail in paragraphs 42-50 below, include a potential diminishing of the impact of UNICEF advocacy work, so crucial to its mission of ensuring the well-being of children and women, because of the lack of day-to-day, on-the-spot contact with other United Nations agencies, government representatives, delegations and mission staff. In addition, a significant percentage of UNICEF staff whose work requires frequent contact with United Nations and government officials in New York would have to spend a considerable amount of time travelling between the two locations;

(b) The real estate consultancy firm believes that subleasing the space not immediately required for UNICEF might prove difficult in this location, and that the City of New Rochelle may have overestimated the financial returns to UNICEF of both subleasing income and residual value. In its opinion, this should lead to a reduction in the estimated total sublease income, between 1995 and approximately 2010, from $43.6 million to $24.8 million, and in the residual value from $223.7 million to $133.9 million, as expressed in nominal terms in the New Rochelle offer for a 440,000-square-foot building;

(c) The architectural and engineering consultancy firm also raised questions about the timing and scope of work required in relation to a study of the environmental impact of increased traffic, and to obtaining various approvals that must be sought from entities not under the control of the City of New Rochelle - for the proposed helipad, for example. After an exchange of views with the City of New Rochelle, the company concluded: "We would advise UNICEF to consider that some items are dependent on the actions of individuals, groups and agencies whose behaviour cannot be precisely predicted";

(d) As stated in paragraph 11 above, a majority of UNICEF staff have expressed a preference for remaining in New York City. A move could result in staff resigning and the resulting need to recruit and train new staff;

(e) UNICEF would be obliged to sublet the space at UNICEF House and 333 East 38th Street.

C. New Rochelle/UNDC - twin locations: New Rochelle (owned) and Manhattan (rented)

37. The advantages and disadvantages of this option remain the same as those outlined in paragraphs 35 and 36. However, the Executive Director believes that locating the Executive Office and other key divisions in New York and the remainder of the UNICEF headquarters secretariat in New Rochelle would be an unattractive option because of the difficulties inherent in separating headquarters divisions that must work together closely on a day-to-day basis. As described in detail in paragraph 49 below, the Executive Director relies on close contact with a number of divisions for information and specialist advice regarding his dealings with Governments and other United Nations agencies. In addition to the problem of maintaining these contacts if a number of divisions

were to be located outside Manhattan, there would also be significant problems of internal cohesion, overall management efficiency and staff morale.

38. Were the Executive Board to choose this option, however, the question of which location would be most suitable for those offices remaining in Manhattan would then arise. The Executive Director would prefer to retain space in UNICEF House because the organization has already been established at that location and as a result there would be a minimal amount of disruption to staff and to the UNICEF image. In addition, the existing shop for Greeting Card and related operations and conference facilities could be maintained.

II. FINANCIAL DATA AND BUDGETARY IMPLICATIONS FOR THE BIENNIUM 1994-1995

39. If the Executive Board approves either of the two options preferred by the Executive Director (see chapter IV below), no additional funds would be required for the administrative and programme support budget for 1994-1995 that has already been approved by the Executive Board. Savings incurred through the restructured lease agreement for UNICEF House would offset additional rent/lease payments, moving costs and project team costs.

III. NON-FINANCIAL FACTORS

40. In choosing a headquarters location, UNICEF must be conscious of both the financial and non-financial implications of its decision. Financial constraints are important because it is imperative that the maximum amount of financial resources available to UNICEF go to provide basic services for children and women in developing countries. Non-financial considerations are also important because, in the final analysis, the input of UNICEF must be measured not in terms of the amount of money disbursed but in what happens to the well-being of children. As noted in paragraph 12 above, their well-being depends not only on the financial resources available to UNICEF but also on its management efficiency and effectiveness in influencing the policies of Governments, donors and communities to ensure that their resources are invested optimally in support of programmes for the well-being of children and women. UNICEF headquarters must be situated so as to maximize this aspect of the organization's work.

41. As requested by the Executive Board in decision 1993/22, the Executive Director has also considered carefully the non-financial factors of a decision on headquarters location.

42. An important aspect of UNICEF, part of the very core of the organization, is its advocacy work. The role of advocacy in UNICEF must be very explicitly acknowledged because it is such an important part of its mandate and source of support. The purpose of UNICEF is to safeguard the well-being of children and women, two groups of people shown repeatedly to be especially vulnerable. As a global advocate for children and women, UNICEF works in partnership and alliances with a vast number of organizations, individuals and Governments that share its concerns.

43. Some of its most important allies do not necessarily have children as their prime concern, but are willing to lend an ear and provide support when a meeting with UNICEF can be fitted in with some ease - the ease that a central location close to the United Nations ensures.

44. To help foster active support for children requires wide and varied outreach as well as accessibility. The present location of UNICEF headquarters in mid-town Manhattan makes it accessible to all its traditional as well as potential new partners, in fact to all who have occasion to come to the United Nations from all over the world. To remove it from this location would make it physically peripheral to the other United Nations bodies in New York City, lessening that accessibility and perhaps, in turn, the effectiveness of its outreach work.

45. The Executive Director also believes it important to point out that financial factors are not restricted solely to the real estate area. As Executive Board members are aware, UNICEF, unlike many United Nations agencies, is a voluntarily funded organization. However, the unique aspect of UNICEF funding is that additional, supplementary funding is built into the country programme process, and is approved by the Executive Board when it reviews each country programme presentation.

46. This window for supplementary resources is an essential element of the vitality of UNICEF. In 1992, for example, $390 million of a total income of $938 million - or over 40 per cent - was supplementary funding. The receipt of these funds depends not on the results of pledging conferences but on day-to-day contact with development officials, especially mission staff in New York and visitors to New York - officials responsible for finance, staff of National Committees for UNICEF and non-governmental organizations (NGOs), etc.

47. In addition, providing donors with information about the efficient use of these supplementary resources involves an unremitting process of review. Timeliness and quality of reports, satisfactory implementation levels and consistent financial data are all part of an ongoing exchange with the mission staff of major donors of supplementary funds.

48. Thus, the Executive Director remains convinced that the advantages of a location close to the United Nations are very considerable and must be given the most serious attention. The benefits of modern communication, including video-conferencing, are fully acknowledged - indeed, UNICEF headquarters, wherever it is located, must strive to make optimal use of these valuable new aids to efficiency and cost management and is constantly seeking to do so.

49. However, a location distant from the United Nations by some 40-45 minutes door-to-door by rail, and longer by road when the traffic flow is poor - a not infrequent occurrence - would pose serious problems of management effectiveness as well as staff morale. The depth and range of daily contacts the UNICEF secretariat undertakes in the immediate United Nations vicinity are very extensive and deserve some elaboration, although the following examples are not intended to be comprehensive:

(a) The Executive Director and his deputies, Executive Office staff and colleagues from the Programme Funding Office, the Programme Division and other divisions meet frequently with senior government ministers and officials, who are often visiting New York briefly, for discussions on social policy and programmes for children and women in the countries concerned. In fact, high-level meetings with decision makers - from Governments, NGOs, the media, industry, special-interest groups, institutes specializing in child health or education, religious groups and a host of other key areas - are a major feature of the Executive Office workload. These contacts are extremely important, enabling UNICEF staff to brief the visitors on current children's issues and priorities, to lay out funding and other opportunities, and to absorb the often complex concerns and priorities of national administrations;

(b) The Office of the Secretary of the Executive Board and those responsible for inter-agency and intergovernmental affairs are in very frequent contact with officials from the permanent missions to the United Nations, colleagues at other New York-based departments and organizations of the United Nations, as well as with visiting officials. Each year, the Office hosts many informal consultations on key upcoming issues, held over lunch so that delegates can attend without interrupting their meeting schedules at the United Nations. Depending on the subject at issue, staff from several other divisions and from the Executive Office participate in these meetings as presenters and resource persons. Should the General Assembly decide that more frequent meetings of governing bodies are required, these areas of activities would become much more frequent and still more closely tied to the United Nations and its services;

(c) The Programme Division has a very wide range of contacts with programme specialists and senior officials visiting New York on matters of policy, inter-agency collaboration, new and innovative programme approaches, etc. These contacts include frequent meetings with visiting government officials, NGO representatives, field staff of other United Nations agencies visiting their headquarters or other authorities in New York, counterparts from the regional desks/offices of UNDP and UNFPA and liaison officers of specialized agencies based at United Nations Headquarters. Often senior officials of bilateral aid agencies, the World Bank and regional development banks wish to have a dialogue with their UNICEF counterparts when visiting New York on other unrelated missions;

(d) The Division of Information maintains close and frequent contact with media representatives based at the United Nations and in New York, as well as with New York-based writers, illustrators, designers, publishers, literary agents and photographers. In supplying a world-wide network with photographs, it relies on the diverse, competitive and high professional standards of photographic services available in New York. Easy access to New York-based television and broadcast personnel and facilities is also critical for providing efficient and timely coverage of UNICEF-related issues. Similarly, the Division of Public Affairs maintains close contact with NGOs with consultative status at the United Nations and with a host of other non-governmental groups, celebrities and others on a wide range of fields relevant to the work of UNICEF;

(e) Greeting Cards and related operations are closely involved with the licensing industry, book publishers, manufacturers of children's games, international trade shows and multinational corporations in Manhattan. In

addition, they build approximately 12 UNICEF exhibits each year for display at the United Nations, as well as cooperating with other New York-based agencies in the development of exhibits for international conferences.

50. Some of these activities can be effectively handled, part of the time, by communication that does not involve face-to-face contact. However, there is no doubt in the Executive Director's mind that direct contact is by far the most effective method of operation. Dialogue and personal interaction are often the key to success, as, for example, in the case of a sceptical media representative being asked to give priority to children's issues.

51. The Executive Director accepts the argument that maintaining limited office space in mid-town Manhattan for key staff involved in these activities could be of some help in addressing this problem. However, as many of the staff involved would need to spend much or all of their working time in mid-town Manhattan, he is extremely concerned about the long-term management implications of a headquarters divided by significant distance.

52. Thus, the long-term risk of locating a limited number of staff more or less permanently in mid-town Manhattan, and a larger number in New Rochelle, seems to the Executive Director to be very considerable. The principal problem, he believes, centres on the Executive Office itself. As already stated, its work would be very negatively affected by the departure of key programme, operations and external relations staff from close proximity to the United Nations. Yet to locate the Executive Office away from the main body of UNICEF headquarters would result in reduced overseeing and executive guidance, while creating a grave risk that the senior management and other staff would drift apart at many crucial levels.

53. A twin-location headquarters split by significant distance would also seriously weaken internal cohesion in other ways. A wide range of very frequent daily contacts currently exists between divisions that would probably be located separately, for example, between the Programme Funding Office and the Division of Financial Management on financial matters concerning funding, and the Programme Division and the Division of Information on the provision of accurate, updated facts and figures for the media. Most importantly, during the crisis period of a major emergency, virtually all headquarters divisions need the closest possible working environment on an almost around-the-clock basis.

54. In addition, consideration must be given to the fact that the strengthening of cohesion and interaction between developmental agencies and departments, including UNDP, UNFPA and UNICEF, is very high on the agenda of Governments and of the United Nations. Bearing in mind the need for cooperation with these other agencies and with the United Nations, UNICEF has kept the United Nations Office of General Services, as well as UNDP and UNFPA, fully informed of its negotiations on this issue. UNICEF has shared with them all relevant correspondence, copies of the firm proposals and all supporting reports and documentation. In this regard, the Executive Director has also borne in mind General Assembly resolution 47/199 of 22 December 1992, in which the Assembly welcomed the decision of the Joint Consultative Group on Policies to set a target for increasing the number of common premises within the United Nations system. It is the Executive Director's view that, while common premises may not always be possible, close proximity is strongly to be desired.

55. Finally, the Executive Director believes that a move outside mid-town Manhattan would have a heavy impact on small missions from developing countries. Their overstretched staff, combined with limited access to vehicles and modern communications equipment, would place these missions at a serious disadvantage, both compared with other missions and in their interaction with the secretariat.

56. Both UNICEF and the real estate consultancy firm have had considerable difficulty in responding with any precision to the Executive Board's request for details of "... indirect costs, inter alia, extra travel and communications quantified to the extent possible ...". They believe that the additional costs of a move to New Rochelle in relation to electronic communications, for example, are likely to be negligible. In addition, the City of New Rochelle has offered to provide reduced-rate bus transport to and from Manhattan and within Westchester County for staff and delegates. Thus, transport costs for individuals, while impossible to quantify precisely at this point, would clearly not be a major factor in the financial calculations. The transport of documentation and specialist supplies to and from Manhattan would be a more important expense, but would be secondary within the magnitude of financial factors influencing a final decision on location.

57. As both the Executive Director and the real estate consultancy firm point out (see annex, paras. 55-58), by far the greatest risks in so far as indirect costs are concerned lie in areas that cannot be calculated precisely in terms of dollars and cents at this stage.

IV. CONCLUSIONS

58. Having examined carefully the final offers of both NYCEDC/UNDC and New Rochelle, and having weighed carefully the financial and non-financial factors involved, the Executive Director wishes to inform the Executive Board as to what he considers to be the best solution to the question of office accommodation for UNICEF headquarters.

59. The Executive Director's preference would be for UNICEF to retain, and eventually own, UNICEF House under the terms renegotiated with NYCEDC/UNDC, and also to acquire a condominium interest in 13 floors (floors 14-27) of the building located at 633 Third Avenue. However, UNICEF would initially occupy five floors and the remainder would be occupied as needed. He has come to this conclusion based on the following:

(a) This decision should solve the problem of office space for UNICEF until at least 2026, consolidating all New York headquarters staff in two locations;

(b) UNICEF would be able to retain UNICEF House under significantly improved terms and to gain eventual ownership of the building. This would mean that the investments already made in the property would not be lost and that UNICEF would continue to have a prime location in immediate proximity to United Nations Headquarters;

(c) Similarly, the expansion property at 633 Third Avenue is in close proximity to UNICEF House, thus allowing easy communication between staff working in both buildings;

(d) Because UNICEF would not immediately require all of the space it acquires at 633 Third Avenue, it would have rental income from the space it sublets. There would be very little risk involved in this area because New York City has guaranteed that it will sublet up to 75,000 square feet of the space to a city agency;

(e) The real estate consultancy firm has given the building an excellent review. In fact, this option - the twin locations of UNICEF House and 633 Third Avenue - was also the one recommended by the real estate consultancy firm (see annex, paras. 31-33);

(f) If, in the future, UNICEF and other United Nations agencies were to consolidate in a newly expanded United Nations district in New York City, UNICEF would be relieved of its obligations with regard to both UNICEF House and 633 Third Avenue.

60. Alternatively, the Executive Director's second preference would be for UNICEF to retain and gain eventual ownership of UNICEF House and to rent space to consolidate all New York headquarters staff in a second location, such as 333 East 38th Street or One Dag Hammarskjöld Plaza. This decision is based on the following:

(a) Again, UNICEF would be able to retain UNICEF House under significantly improved terms and to gain eventual ownership of the building. This would mean that the investments already made in the property would not be lost and that UNICEF would continue to have a prime location in close proximity to United Nations Headquarters;

(b) The savings from the negotiations over UNICEF House would more than cover the costs of rental space for the foreseeable future;

(c) Because there is the possibility that the United Nations and other United Nations agencies will need additional office space in Manhattan, this medium-term solution would allow UNICEF to take part in any future joint decisions on the longer-term needs of the entire system;

(d) Because UNICEF already has space in two rental properties (333 East 38th Street and One Dag Hammarskjöld Plaza) where there are possibilities for leasing further space, this would cause a minimal amount of disruption to UNICEF staff.

61. Under the latter option, UNICEF would adopt a growth-by-stages approach to the question of headquarters office accommodation, thus not acquiring far more space than it needs at a given stage. In this case, the Executive Board could review the matter again in several years' time, when it could take into account the needs of UNICEF and of the United Nations as a whole. However, to avoid being caught in a position of having no bargaining power vis-à-vis a landlord, the Executive Director believes he should be given approval for rental as such, with limits on cost, space and time.

Notes

1/ E/ICEF/1993/14, annex II, para. 50.

Annex

EXECUTIVE SUMMARY OF THE REPORT OF THE REAL ESTATE CONSULTANCY FIRM

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EXECUTIVE SUMMARY

1. This Executive Summary is being provided as a brief review containing details we believe sufficient to understand the basis of our conclusions and recommendations. It was completed independently of the board paper being presented by the Executive Director of UNICEF to its Executive Board. More details and background are included in our full report including appendices and the reader is encouraged to read carefully the full report for a more thorough understanding of this complex project.

Background

2. Executive Board Decision 1993/22 of 6 May 1993 requested the Executive Director of UNICEF to secure firm and final offers from the City of New York Economic Development Corporation/United Nations Development Corporation (hereinafter "NYCEDC/UNDC") and the City of New Rochelle (hereinafter "CNR") for single and twin location options to accommodate UNICEF New York headquarters accommodation.

3. As a result of efforts undertaken by Richard Ellis since September 1991, on behalf of UNICEF, several options were developed for the May 1993 Executive Board session which demonstrated that the organization could reduce its long-term occupancy costs by various amounts for different premises configurations with the greatest reduction achieved by relocating and consolidating all premises outside of Manhattan.

/...

4. The savings (expressed in nominal terms) ranged from a low of $6.0 million to a high of about $190 million over a 32-year analysis period beginning in 1995. These savings were calculated by comparing the cost of the options against the cost of maintaining the present premises under current lease obligations and securing additional space as needed over time on a lease basis.

5. The major factors responsible for achieving these savings were:

(a) The ability to renegotiate the existing UNICEF House lease, whereby UNICEF would extend it's occupancy beyond the present term, (i.e. 30 June 2002) to a date when the bonds that were issued by UNDC for the original construction of UNICEF House would be paid. This date is estimated to be 1 July 2026. In exchange for this extension UNDC would fix the rent at a reduced rate and transfer ownership of the property to UNICEF at the end of the lease term;

(b) The ability to have the City of New Rochelle issue tax exempt bonds for the construction of a new facility to accommodate all of UNICEF. As with UNICEF House, UNICEF would ultimately acquire ownership of this property.

6. There were concerns at the May session that the options offered were not equally comparable and were not given the proper consideration of future or residual value of the properties offered, the implications of subleasing excess space not occupied by UNICEF, and the importance of the organization's function within the United Nations and its relationship to other agencies and missions.

7. The firm and final offers requested by the Executive Board to be received no later than 30 June 1993 were therefore analyzed at the direction of the Executive Board to consider all these factors and to report our findings as well as possible recommendations.

8. Table 1 is a summary of the properties and the basic terms which were offered as submitted on 18 June 1993 by NYCEDC/UNDC and CNR for the options listed in Executive Board Decision 1993/22. A factual summary of the NYCEDC/UNDC and City of New Rochelle offers as submitted on 18 June 1993, which also includes the additions or clarifications received following their submittal, can be found at the end of this executive summary. Specific commentary supplementing these summaries follows.

NYCEDC/UNDC OFFER

9. The options offered include:

(a) *Single location, owned* - consolidation into one location at either 633 Third Avenue or 685 Third Avenue. However, 90,000 sq.ft. would be retained at UNICEF House until 1999 if 633 Third Avenue is selected and 22,000 sq.ft. would be retained at UNICEF House until 1999 if 685 Third Avenue is selected, as there is insufficient space at either location initially;

(b) *Twin location, both owned* - retaining UNICEF House under a master lease-purchase arrangement and master lease-purchase of all of 845 UN Plaza or a condominium interest in 633 Third Avenue or 685 Third Avenue to provide for the expansion space needed;

(c) *Twin locations, UNICEF House owned, other Manhattan rented* - retaining UNICEF House under a lease-purchase arrangement but leasing any needed expansion space in another Manhattan location. For purposes of this last option 333 East 38th Street and One Dag Hammarskjold Plaza were considered as UNICEF presently occupies space in both these locations.

10. Following is a brief commentary on each of the properties reviewed in New York City:

11. **633 Third Avenue**. This is a 1 million square foot, 41-story building located on Third Avenue between 40th and 41st Streets. It was originally built in 1962 to accommodate the headquarters of the Continental Can Corporation. Upon the company's departure it was leased to basically two tenants - Mobil Oil and Chemical Bank with both leases expiring in 1998. With the relocation and downsizing of these two companies their excess space has been subleased to other tenants for terms expiring also in 1998. The property is security for a loan by the Travelers Insurance Company who are in the process of foreclosure to take control of the property from the present owners, who are in default of their loan obligation.

12. The building, because of its quality tenant roster, has been well maintained and is in good condition. Of the properties offered it is located the furthest from UNICEF House but offers the most flexibility in terms of accommodating UNICEF either partially or in its entirety, and in accommodating other UN related agencies in the future.

13. **685 Third Avenue**. This is a 600,000 square foot, 31-story building located on Third Avenue between 44th and 43rd Streets. It is actually two buildings - a 31-story

320,000 gross square foot building constructed in 1976 attached to the original 28-story, 280,000 gross square foot building that was constructed in 1961. It presently is owned and serves as the headquarters for American Home Products who occupy about 60% of the building, with other tenants located throughout the building as well. American Home Products has announced that it will be relocating its headquarters to New Jersey soon. In the meantime it is attempting to sell the building or a portion of the building as well as lease any present or future vacant space.

14. This property is the closest to UNICEF House. However, there are several issues such as the wire management system and floor configuration which make the building unsuitable for UNICEF or other United Nations agencies in the long term.

15. **845 United Nations Plaza**. This is a 20-story, 241,000 gross square foot building located on First Avenue between 48th Street and Dag Hammarskjold Plaza. The building was constructed in 1960 and is presently occupied in its entirety by engineering societies who collectively, through the establishment of United Engineering Trustees, Inc., own the property. The building houses a dozen engineering societies, providing conference, library and research facilities for the society and it members, on-site medical facility, dining room and cafeteria as well as a large auditorium. The site has additional development rights which can accommodate an expansion of approximately 150,000 square feet of office space. This is the most ideally located of the properties and occupies a prestigious location within the United Nations District. However it is a building which was specifically designed to accommodate the engineering societies and has small floor plates and large common facilities, which may not be suitable for UNICEF as an expansion building. Its gross square footage is reported at 241,000 square feet but we believe that up to 18% of this space is not truly occupiable as offices. This has been difficult to assess as the United Engineering Trustees, after considering the sale of this property for in excess of $50 million, when its fair market value is estimated to be closer to $38 million, have taken the property off the market and denied any further access which would allow us to continue with our detailed investigation.

16. NYCEDC/UNDC have indicated, however, that should UNICEF decide to select this property that NYCEDC/UNDC would acquire this property by condemnation and has based its offer on an estimate of the acquisition related costs.

17. The adverse conditions for acquisition and even then its relatively high cost of ownership for a building that may not satisfy UNICEF's projected needs, should preclude this property from being considered, regardless of its prime location.

18. **333 East 38th Street**. This is a 12-story, 435,000 gross square foot building that is located on First Avenue between 38th and 39th Street. It was originally constructed in 1928 and has over the past decade gone through extensive renovation for conversion to an office building. Presently the US Committee for UNICEF and the UNICEF Greeting Card Operation are located in the building. This property is only available for lease and the only space available is 38,000 square feet on the eighth floor. Other space will become available at various dates, but not until 2004.

19. Although the building was renovated recently, it should only be considered for overflow purposes by UNICEF because the availability of space is uncertain, or as a medium term location for eventual relocation to more suitable premises.

20. **One Dag Hammarskjold Plaza (885 Second Avenue)**. This is a 49-story, 785,467 gross square foot building located on Second Avenue between 47th and 48th Streets. It is a multi-tenanted building with several missions to the United Nations located here. UNICEF occupies a total of 38,323 square feet on floors 40, 48 and 49 under a sublease from Katz Communication which expires in September 1995.

21. Space is presently available either directly from the landlord or as a sublease from other tenants in the building. However there is no schedule of availability which meets exactly the requirements of UNICEF over the long term. Lastly the owner has not provided firm offers for the space as our interest only begins in 1995, whereas his interest is in leasing the space as soon as possible.

22. In occupying space at 333 East 38th Street or One Dag Hammarskjold on a lease basis UNICEF is liable for the payment of real estate taxes in excess of the base year real estate tax. This option nullifies one of the major benefits of ownership but has as its advantage the ability to accommodate UNICEF's needs in a flexible manner with the liability relatively limited, unlike the ownership options where large blocks of space must be committed to in the beginning.

CITY OF NEW ROCHELLE OFFER

23. The City of New Rochelle offer contemplates the construction of a new building designed to accommodate UNICEF using tax exempt 30-year bonds having variable rates equating to an effective rate just under 6% over the term. The building is to be constructed on a 1.9 acre city-owned site that is to be leased to UNICEF for 30 years after which ownership of the land will be transferred to UNICEF, unconditionally. The City of New Rochelle has offered several building options ranging from a low of

350,000 square feet up to 440,000 square feet. Ownership of the building can be immediate and would be subject only to the land lease.

24. The building options were offered at UNICEF's request in order to accommodate an as yet undetermined amount of space that could be retained in Manhattan. The 440,000 square foot option would satisfy the single location option required by the Executive Board and a variation of this proposal would satisfy the twin locations option with the New Rochelle site owned and the Manhattan space located in either UNICEF House or some other location such as 333 East 38th Street, rented.

25. The building proposed, as designed by Kohn Pedersen & Fox and to be developed by HRH Starrett, is to be capable of accommodating the latest telecommunications and computer operations. However after careful review it can be considered questionable that the costs estimated for the construction of the proposed facility are sufficient as these estimates were based on conceptual plans and specifications which are still to be considered in detail by UNICEF. Further the City of New Rochelle had not addressed, as it is not capable to do so, the outstanding costly lease obligation at UNICEF House as well as 333 East 38th Street.

FINANCIAL REVIEW OF OFFERS - QUANTIFIABLE ISSUES

26. The terms of the firm and final offers submitted by both NYCEDC/UNDC and CNR included the cost of each of the options offered. These costs were expressed in both nominal and present value terms over a 32-year period from 1995 to 2026. The basic instructions to each City were to include all the costs over the period using an escalation rate of 4% per year where appropriate and a discount rate of 10% to arrive at the present value figure.

27. Table 2 details the nominal and present value cost for each of the options offered by each city as presented in their June proposal. Included for reference purposes are the figures which were presented to the Executive Board at the May session.

28. After careful review of the offers submitted and of the responses to requests for clarification on several points of each offer, some adjustments were required to be able to properly compare each option being considered. The adjustments that had to be made consider the following:

(a) An architectural and engineering assessment of the properties proposed;

(b) Uniformity of approach toward calculation of the residual value;

(c) Application of local market and specific property characteristics to more accurately assess the potential for sublease income;

(d) An estimate of the quantifiable costs and benefits to the organization under any one option which impact staffing, telecommunications, computer operations and transportation.

29. Table 2 represents a summary of the financial adjustments that were made in order to more closely produce nominal and present value figures under each option which can then be equally comparable.

30. With respect to the adjustments and the basic assumptions used to quantify each of the above-noted items the following is offered:

Architectural and Engineering Assessment

31. The results of a review by Sverdrup Corporation (an architectural and engineering firm) are summarized in table 3. The specific comments which formed the basis for a quantifiable adjustment to the properties were as follows.

32. At 685 Third Avenue it was noted that the configuration of the floors created a greater loss factor than what UNICEF had considered in projecting its space needs. Therefore additional square footage in the amount of 9,767 square feet was needed at this location to satisfy the expansion needs of UNICEF.

33. It was also believed that the capital costs estimate of $1,400,000 for base building work would be inadequate. However as UNDC has offered to provide the funding at no additional cost to UNICEF no adjustment was needed.

34. At 633 Third Avenue it was determined that the full amount of the capital costs called for in the NYCEDC/UNDC offer for this property are not necessary. The building appears to have been well maintained over the years and the mechanical equipment is in good order. Some refurbishment to upgrade certain elevator mechanicals may be desired but is not required. The loss factor associated with this building is relatively close to what had been considered in UNICEF's projections for space and therefore only a small increase in square footage is required.

35. The only adjustment required was to increase the square footage by 3,850 square feet.

36. As the owners of 845 United Nations Plaza have denied access the review was very limited. However based on the type of occupants (i.e. non-profit dependent on dwindling member dues) in this building and its age, it would be more likely that operating expenses as well as the capital costs required to refurbish or replace equipment is understated. However NYCEDC/UNDC have stated in their offer that if after a detailed investigation additional capital were required then UNDC would pay for these at no additional costs to UNICEF. Therefore, there has been no adjustment made to the figures presented for this report.

37. It should be noted, however, that the functional office space that may actually be available to UNICEF will most likely be much less than has been reported, i.e. 241,000 square feet. Considering the extensive use of this property for common facilities, e.g. library, cafeteria, auditorium and basement storage, it is unlikely that this building could satisfy the long-term office space needs as projected by UNICEF. It is estimated that over 40,000 square feet is not suitable for office use. This is a major concern that should preclude this building from further consideration.

38. The City of New Rochelle considers the construction of a new building described as containing all the latest technological advances and designed in a unique fashion. It is questionable whether this type of building could be constructed for the costs estimated in the proposal, which costs form the basis for calculating the master lease rent. Many of the concerns expressed by Sverdrup are quantifiable to some extent, but because of the lack of detailed specifications which at this stage have not been developed, it must be a matter of estimating. These concerns relate to inadequate construction funds for the building envisioned, an unusual building footprint which results in a significant amount of non-functional circulation area around the offices, and inadequate sizing of special rooms for the building mechanical, electrical and telecommunication services. Sverdrup originally believed that an additional $5.0 million would be needed to complete the building with all the above considered. However, after further clarification from the City of New Rochelle they retracted this amount. Still the construction figures are based only on conceptual plans and specifications which will most likely result in changes by UNICEF that will increase the overall construction costs.

39. Although there appears to be insufficient time to have the building available for occupancy by August 1995, the City of New Rochelle has guaranteed alternate office accommodations at a cost of $18 per square foot including operating expenses. Even if the delay in occupancy is up to one year the extra cost relative to the total cost for this option is less than ½% and therefore no adjustment is considered. The risk however could be that UNICEF is fortunate enough to secure a sublessee for UNICEF

House quickly only to be unable to take advantage of the situation as it must retain possession of UNICEF House pending completion of the building in New Rochelle.

Residual Value

40. This value, for each of the options being considered, was developed to understand and quantify the financial impact of ownership. Residual value is influenced by several factors which impact greatly the figure developed but which also is largely not under the control of the owner. Principally, residual value is a function of location, supply and demand at the time of sale, and prevailing economic conditions - both local, national and worldwide.

41. As an exercise, we can reasonably, with some broad assumptions, estimate the residual or future value of a property and by discounting this value at the appropriate rate understand its impact on a decision being made today. However, we would strongly caution against using this criteria as the basis for a decision, especially as we are considering a value in 2026.

42. We have, therefore, reviewed the assumptions and approaches used by NYCEDC/UNDC and CNR which were slightly different. Neither is wrong, per se, but in order to compare one to the other we selected one approach and applied it equally for all properties with adjustments that in our opinion would be prudent.

43. The common approach selected was to assume that UNICEF vacates the property upon selling it in 2026, and that the purchaser is an investor. The investor will base his price on his projections for occupancy by new tenants over time, the gross rental income achievable from the tenants and the expenses - both operating and capital, required to attract tenants. The value would be calculated by estimating stabilized net income and dividing this by the rate of return that the investor would require.

44. Using this common approach assumptions were used for all the properties with respect to income, expenses and required rates of return.

45. Major points of difference between our assumptions and those of NYCEDC/UNDC as well as CNR are summarized in table 4. Our opinion of the 1995 net rent was then escalated by 4% per year to achieve a net rent in 2026 which in turn was divided by the 8% rate of return required by the investor to determine the 2026 value per square foot. An additional sum to take into account the cost of lease-up time, reasonable vacancy, tenant fit-out costs and expenses associated with marketing and commission paid to agents was deducted to determine the net value per square

foot in 2026. These values in turn were used to calculate the value of each of the properties in 2026 and by applying a 10% discount rate the value of each of the properties expressed in present value terms. As can be seen, in table 4, the present value calculations for residual value take into account the time value of money and this greatly reduces the future anticipated value from the sale of property in the year 2026.

Sublease Income

46. In this sense both the NYCEDC/UNDC and CNR submittals estimated what they each believed would be the income UNICEF could achieve by renting to others space that UNICEF itself would not occupy.

47. In the case of the NYCEDC/UNDC offer this income is in some cases, (i.e. 633 Third Avenue and 685 Third Avenue) in addition to the income received from tenants who have leases already in place and who are expected to continue to pay their obligation. Sublease income was properly adjusted for free rent that is prevalent in today's market, tenant improvement allowances, payment for commissions and allowances for vacancy. In our opinion no adjustments need to be made to the NYCEDC/UNDC figures that were presented.

48. In review of the CNR figures the space that will be vacant will be coming into a market that has no current history to rely on. UNICEF by its construction of a new building will in essence be creating the market, unlike the case in Manhattan which is relatively mature and more predictable in the near term. We reviewed carefully the assumptions presented in the CNR estimate for sublease income and made adjustments for the following:

(a) Allowance for a vacancy of some space at the rate of 10%;

(b) Adjustment for the sublet space amount by assuming that UNICEF will need to expand in 2005. CNR assumed no growth in UNICEF's needs between 2000 and 2010;

(c) Adjustment of the rental figure to consider free rent, and costs to rebuild space which was occupied and is then required by UNICEF.

49. The adjustments collectively reduced the sublease income that CNR had originally estimated in its submittal. Although the adjustment now calculates income under a similar basis as New York City we also feel a more reasonable effective rate of $18 per square foot should be used and then make upward adjustments every five years to $22 per square foot in 2000 and $26.50 per square foot in 2005.

50. Table 5 shows the details for the calculations of the New Rochelle sublease income. The City of New York sublease income is shown with no calculation as we had no adjustments to perform.

Indirect Premises-Related Costs and Benefits

51. There are factors under some options which will create an additional cost or benefit to the organization when UNICEF makes its selection. As part of our review we attempted with UNICEF staff to quantify these costs or benefits for implications to staff growth, telephone and computer operation, and lastly transportation for business purposes and commutation by staff. Table 6 provides a summary of these costs and benefits under each option.

52. Implications to staff growth were determined by considering how many additional or fewer staff from the present configuration would be required to support the proposed configuration under each option. For example under a single location owned, in New York City, there is an anticipated savings due to a reduction of five persons which totals about $5.8 million expressed in nominal terms and $1.3 million expressed in present value terms. All the options are associated with a savings except for the twin locations "New Rochelle owned, Manhattan rented" option. Although there was a staff reduction of one, there is an added cost due to upgrading of one mail and pouch clerk, and one maintenance worker.

53. With respect to telephone and computer operations the IRM Division of UNICEF estimated the additional costs associated with a twin premises scenario as opposed to a single premises scenario. For twin locations in New York City, as long as UNICEF House remained the primary location there was no cost difference. The only single location where there is a cost difference is New York City, where $200,000 in nominal terms is required because in either 633 Third Avenue or 685 Third Avenue some space must be retained in UNICEF House until 1999.

54. Transportation costs were considered for business purposes and for staff commutation. We have however after consideration not included any additional costs for either of these. In terms of business-related transportation costs only the time of the staff member can be considered as the City of New Rochelle has offered free shuttle bus service between New Rochelle and the United Nations for business meetings. Staff commutation may be impacted in the early years as it was determined that about 68% of the staff live in New York City (33% in Manhattan) and prefer short commuting distances at low cost. However this is not a cost borne by UNICEF and secondly over time residence and commuting patterns shift as the staff changes its habits. There was therefore no adjustment made.

NON-QUANTIFIABLE ISSUES

55. There are several factors affecting the organization should UNICEF decide to relocate outside of Manhattan which cannot be quantified but need to be considered carefully. These are related to the staff, the working relationship of UNICEF with the United Nations, other United Nations agencies and Missions to the United Nations. These issues are summarized below.

56. **Relocate Outside Manhattan**

(a) Opportunity to consolidate all office space into one building;

(b) Enhanced ability to expand and still remain consolidated;

(c) Reduced operating expense base for utilities as well as common services;

(d) Opportunity to improve staff working environment;

(e) Ability to accommodate other United Nations agencies;

(f) New building designed to meet UNICEF's specific operating, technological and security requirements;

(g) Increased opportunities to locate warehouse and printing operations close (within 1 mile) to office operations;

(h) Expanded labor availability as new location may be attractive to staff that may not or cannot work in Manhattan due to commutation or inability to find affordable housing.

57. **Remain in Manhattan**

(a) Ideal proximity to United Nations headquarters, other missions and agencies;

(b) Use of services and facilities presently available at United Nations Headquarters;

(c) No inconvenience of transportation between new location and Manhattan to attend meetings, briefings or emergency sessions;

(d) No disruption of critical operations while relocating or establishing new operations;

(e) No dislocation of employees already located in Manhattan;

(f) Experienced security/police protection and diplomatic services in place.

58. Clearly, the impact of these points on the options is a subjective issue and we can make no attempt to consider any one as more important than the others.

CONCLUSIONS

59. There is, even after all the adjustments, a difference in nominal terms of between 15% and 35% (depending on the option compared) in costs between the New Rochelle and the New York City offers, in favor of New Rochelle. However, when reviewed in present value terms, which take into consideration the timing of the costs and the benefits, there are several New York City options which are less costly than the New Rochelle options. We believe a present value comparison is the only effective method of comparing alternatives.

60. Tables 7 and 8 include the details of the direct and indirect premises-related costs for each of the options. We have also included a column which is labelled "Status Quo" to show the cost to UNICEF if it takes no decision and continues, with its present obligations, providing an estimate of the cost to rent space in the future as needed.

61. The tables were designed to distinguish between what we call firm costs/benefits and soft costs/benefits. The first highlighted row labelled "Total Firm Costs/Benefits" represents figures which are derived from the contractual obligations UNICEF signs if the option is selected. The figures are accurate to a greater than 90% level with any future possible changes due to changes in inflation rate which was used to forecast operating expenses. In contrast to these definite firm costs, "Other Rent and Soft Costs/Benefits", which total is shown in the next highlighted row, presents figures which are estimates and not contractual. Although most of these soft costs/benefits are provided as estimates with some degree of confidence (between 50% and 75%) the residual value is very questionable as it is subject to so many external factors that UNICEF will have no control over.

62. The following notes are provided as further explanation of each item in the table:

(a) *Board Designation, Name and Status of Property* - Repeated as taken from Decision 1993/22 for each of the options;

(b) *Location(s)* - Address of property being offered under each option. Under the New Rochelle, Twin Locations option the 333 East 38th Street and UNICEF House were included as the rental properties since New Rochelle did not address this aspect in their proposal;

(c) *Space Configuration* - For single locations the space in square feet is given for the property address. This does not reflect the total space actually occupied or committed to especially in the early years (e.g. 1995 to 2003) when there is space still being paid for at UNICEF House, 333 East 38th Street and even One Dag Hammarskjold. For the Twin Locations option the space is shown in two parts -first to indicate the space at UNICEF House or New Rochelle, as the case may be, and secondly (followed by a slash) the space located in the other property. For option a.iii only space committed to in 1995 (i.e. 38,000 sq.ft. at 333 East 38th Street) is indicated;

(d) *Existing Obligation* - These costs represent the base rent and estimated operating expenses for the existing leases at UNICEF House, 333 East 38th Street and One Dag Hammarskjold from the period beginning in 1995 and ending on their respective termination dates, prior to any new commitments made by UNICEF when selecting any one of the options;

(e) *New Obligation* - These figures represent additional costs that UNICEF would commit to if it selected the option. It represents the difference in costs to existing leases or commitments, e.g. at UNICEF House where a certain amount is already committed to. It also represents, by designation as "new location(s)", the cost of the space for the option selected. The cost of the space for the option selected is offset by the income expected only from existing tenants with leases in place, as these are contractual obligations which in all likelihood will continue;

(f) *Direct Costs/Benefits* - This represents an estimate of the income that may be expected under each option for each of the properties that UNICEF presently occupies or will occupy, in which there is space surplus to UNICEF's needs. There are no existing or prospective tenants for this space;

(g) *Other Rent and Soft Costs/(Benefits)* - Costs or benefits (benefits are presented in parenthesis to designate the difference) under each option to consider any staff headcount difference, incremental costs for computer operation and telecommunications and an estimate of additional premises obligations which may be needed if not satisfied under the original commitment. This last item is particularly relevant for options a.iii, c and under Status Quo where the original commitment is only for the space identified, i.e. 38,000 sq.ft. or 40,000 sq.ft. and no more. To satisfy the long-term growth projection additional commitments will be required in the future but these are estimates as the space itself is not identified;

(h) *Residual Value* - This is an estimate of the value of a property which would be owned by UNICEF under each option. The value was calculated by considering the sale of the property, vacant to an investor in the year 2026.

63. As a final review of the buildings and options offered we conclude the following:

NYCEDC/UNDC

Single Location

64. For both 633 Third Avenue and 685 Third Avenue space must be retained at UNICEF House (90,000 sq.ft. for the 633 Third option and 22,000 sq.ft. for the 685 Third option) as there is insufficient space initially in either of the buildings to satisfy all of UNICEF's needs. This therefore becomes a single location only after 1999. Until then it is essentially a twin location configuration. UNICEF is also still faced with the risk of subleasing UNICEF House, with no relief from its existing lease obligation given by UNDC.

Twin Locations, both owned

65. Technically there is only one option in New York City which satisfies the Board resolution criteria - UNICEF House plus 633 Third Avenue. It provides for a low-cost source of space that is as close to consolidation as is possible in the United Nations district. The additional benefits of existing tenant leases, ability to sublease up to 75,000 square feet of space back to New York City in 2005 and to be relieved of dual lease liability if UNICEF elects to relocate to an as yet to be determined expanded United Nations district make this option very flexible also.

66. The UNICEF House plus 845 UN Plaza is too costly, does not provide sufficient office space, and is extremely risky - not so much in additional cost, as UNDC has provided for relief from any overruns, but from an acquisition sense as the building will

have to be acquired through condemnation. There is, currently, insufficient information to truly understand this option. Also operating expenses will most likely be higher, further exacerbating the cost differential.

67. With respect to the UNICEF House plus 685 Third Avenue option the expansion property (i.e. 685 Third Avenue) is not a suitable long-term building. The configuration of the floor plate technologically and spatially is poor, and proper wire management will be extremely difficult. The cost savings over the other Manhattan options are not significant enough to warrant the selection of this building.

68. The UNICEF House plus other Manhattan space rented can not be developed to the extent that the other options are. In a way however this option offers many advantages because it provides UNICEF with the ability to secure space as it deems necessary in the most optimum location, with a minimal commitment up front. The risk is associated with the fact that without a commitment UNICEF is subjecting itself to market conditions prevalent at the time it wants to make a premises selection. In some instances it may have to react to the market, taking space it may not immediately need or having to wait until space becomes available. This wait could create excessive space constraints affecting staff morale and working conditions, and organizational efficiencies. At some point it may be conceivable that UNICEF could find itself in more locations than it presently occupies and therefore this should not be considered a good long-term solution. It is at best a five to seven-year option and cannot really be compared with the other options. In fact if we assume continual leasing of space for the same analysis period, i.e. 1995-2026, this option in the end becomes the most costly. However, if UNICEF decides to delay a major discussion on its headquarters this option provides a cost-effective solution for its medium-term premises requirements.

CITY OF NEW ROCHELLE

Single Location.

69. This is the most economical option in nominal terms regardless of how many adjustments are made. However this option carries with it the greatest risk. Construction cost overruns, inability to sublease UNICEF House and East 38th Street, managing the disruption of operations during the relocation, subleasing the surplus space in New Rochelle, and controlling staff morale all have the potential of creating a chaotic state for the organization which could impact greatly on its functions and wipe out any anticipated cost benefits. Further, if the decision turns out to be faulty or business considerations require a new strategy UNICEF will have a very difficult time extricating itself from this alternative.

Twin Locations, New Rochelle owned and other Manhattan rented

70. This is the most difficult option to assess. It apparently offers the benefits of both locations but with a concern as to how the organization will be split and if it can function in this manner. One can argue that operations are now split between UNICEF House, East 38th Street and One Dag Hammarskjold - but there is a big difference between being within walking distance and having to commute between distant locations. Several large Manhattan-based corporations are experiencing this now with their move of back office operations to Brooklyn and Long Island City, respectively. Some of the comments we hear are that meetings are not impromptu or quickly set, staff tend to be gone longer than necessary and they visit "headquarters" often to keep in touch or in front of key executives, which is seen as a requirement to further their careers. It is questionable from our limited observations that UNICEF has the discipline to manage this "distant" twin headquarters option. This is not necessarily a criticism of UNICEF management but of the fact that UNICEF is not organized as a typical corporation or even other non-profit organizations. We can foresee the organization growing in Manhattan to a size which may someday equal New Rochelle, creating even greater management inefficiency and again negating the premises costs benefits obtained after having initially selected New Rochelle. Lastly the decision to relocate to New Rochelle may damage relations with the City of New York and may negatively impact on its day-to-day dealings with the rest of the United Nations and other agencies. Remaining partly in Manhattan will continue to remind New York City of the abandonment by UNICEF.

Organizational Issues Outstanding

71. The base assumption is that UNICEF headcount will grow and that this growth will continue to require office space in New York. Each option was analyzed for its ability to satisfy exactly the growth expectations of the organization. However, these projections are at best questionable considering all that is transpiring at the United Nations with respect to organizational reform, the desire to minimize and even reduce headquarters staff growth in New York, and the premises needs of other United Nations related agencies in New York. In this environment it is difficult to undertake a long-term premises view when the prospect for an organizational change (perhaps dramatic) appears to be very high.

72. Another important aspect which is not clear is the importance of proximity to the United Nations Secretariat, Missions to the United Nations and other UN-related agencies. Our initial efforts considered all locations within a 25-mile radius of the United Nations district as being acceptable. However, it is evident from the comments by some missions, agencies and by senior staff, that a relocation outside of the

present UN district would be at the least inconvenient, and at the most damaging, to the effectiveness of the organization - particularly with respect to fund raising. Our reaction is to be conservative and to consider that, logically so, proximity to the UN has to be important - maybe not critical, but important.

RECOMMENDATIONS

73. From purely a financial point of view, after almost two years of proposals and counter-proposals, locations outside the City of New York have consistently offered lower cost alternatives on a present value basis. This having been said, the latest offer from NYCEDC/UNDC now places certain New York City options on par with the latest offer from CNR. In order to do this NYCEDC/UNDC has reduced the cost of their proposal in May 1993 by approximately US$40 million in present value terms. Based on these values and on a review of the non-quantifiable issues placing a significant level of importance on a close proximity to the United Nations district we can see no overriding benefit to relocating to New Rochelle. In effect the last offer from NYCEDC/UNDC has eliminated the major attraction to a relocation to New Rochelle, specifically present value cost savings.

74. Up until the receipt of the latest offer from NYCEDC/UNDC we were of the opinion that a relocation to New Rochelle was the preferred option under the following circumstances:

(a) Proximity to the United Nations was not of critical importance;

(b) Headcount growth for UNICEF was achieved or exceeded over the next 20-year period;

(c) Consolidation into a single building offered the significant operational advantages.

75. Based on our understanding of the needs of the UNICEF organization and on the apparent importance of the proximity to the United Nations, and on our review of the final financial proposals, our recommendation is that UNICEF accept the NYCEDC/UNDC proposal to restructure the UNICEF House lease. In addition, based on the assumption that the headcount growth projected by UNICEF is reasonable, UNICEF should direct NYCEDC/UNDC to proceed with the negotiations to acquire a condominium interest in 633 Third Avenue on behalf of UNICEF. We believe this solution will provide the following benefits:

(a) Long-term, present value low-cost source of office accommodations;

(b) Minimum number of locations;

(c) Expansion capability available for other United Nations agencies;

(d) Ability to return up to 75,000 square feet of space to NYCEDC/UNDC if space requirements do not meet projections;

(e) Close proximity to the United Nations;

(f) Eventual ownership of the property for use by UNICEF or the United Nations;

(g) Ease of subleasing surplus space in a mature market;

(h) Ability to relocate to an expanded United Nations district in the future without the penalty of continuing lease obligations;

(i) Minimal disruption of existing operations.

76. If the headcount growth projections are not reliable we would still recommend that UNICEF accept the NYCEDC/UNDC proposal to restructure the UNICEF House lease. However, other space as needed, should be leased depending on the availability in either 338 East 38th Street or One Dag Hammarskjold Plaza. This however is a short-term solution which should be corrected once the headcount projections have become clearer. It must be remembered that to continue the solution long term would be extremely costly, with the benefits of a long-term solution and ownership limited to UNICEF House. Further, once UNICEF has committed to UNICEF House its leverage with NYCEDC/UNDC will be diminished and in any attempt to negotiate a long-term solution in the future may not be able to extract the maximum benefits available.

SUMMARY OF FIRM AND FINAL OFFER SUBMITTED BY CITY OF NEW YORK ECONOMIC DEVELOPMENT CORPORATION AND UNITED NATIONS DEVELOPMENT CORPORATION

(18 JUNE 1993)

Premises Scenario (Option a.i)

Single Location, Owned

Premises Configuration and Location

UNICEF House @ 90,000 sq.ft. until 1999, plus
633 Third Avenue @ 439,456 sq.ft.

or

UNICEF House @ 22,000 sq.ft. until 1999, plus
685 Third Avenue @ 448,094 sq.ft.

Basic Deal Structure

(a) UNICEF House

(i) Under 633 Third Avenue, retain 90,000 sq.ft. until 1999 at present rate structure which is $37.50 psf until July 1996 and then $41.50 psf to 1999.

(ii) Under 685 Third Avenue, retain 22,000 sq.ft. until 1999 at present rate structure (see above).

(b) Expansion Building (633 Third Avenue or 685 Third Avenue)

(i) Master lease to commence upon occupancy by UNICEF (estimated to be 1 January 1995). Entire property acquired for a term to expire 31 December 2023.

(ii) Fixed annual net rent based on final acquisition costs but not to exceed:

$22.00 psf @ 633 Third Avenue
$19.00 psf @ 685 Third Avenue

(iii) Operating expenses paid directly by UNICEF in addition to above, estimated in 1995 to be:

$8.54 psf @ 633 Third Avenue
$8.20 psf @ 685 Third Avenue

(iv) Any income from existing tenants with leases in place will be paid to UNICEF.

(c) Included in Rent Proposed

(i) $35.00 psf toward build out of space occupied by UNICEF at either property.

(ii) Basic building improvements in the amount of $5,975,000 for 633 Third Avenue and $1,400,000 for 685 Third Avenue.

Premises Scenario (Option a.ii)

Twin Locations, Both Owned

Premises Configuration and Location

(a) UNICEF House with the conversion of floors 14 and 15 for a total of 204,371 sq.ft. plus 845 United Nations Plaza having a total of 241,461 sq.ft.;

or

(b) UNICEF House having a total of 180,491 sq.ft. (no conversion of floors 14 and 15) plus a 262,351 sq.ft. condominium interest at 633 Third Avenue;

or

(c) UNICEF House having a total of 180,491 sq.ft. (no conversion of floors 14 and 15) plus a 268,481 sq.ft. condominium interest at 685 Third Avenue.

Basic Deal Structure

(a) UNICEF House plus 845 United Nations Plaza:

(i) At UNICEF House a fixed annual rent (including the original 1987 base year operating expenses) of $32.00 psf for the term 1 January 1995 to 30 June 2026;

(ii) At 845 United Nations Plaza a fixed annual net rent of $25.75 psf for the term 1 January 1995 to 31 December 2023, reduced to $23.75 psf for every year in which the annual rent payment that UNDC would make to the City of New York with respect to Three UN Plaza is no less than $481,000, which is the current annual rent. In the event that the UNDC rent payment to the City of New York is ever less than $481,000, the credit would be equal to such lower amount;

(iii) Operating expenses are to be paid by UNICEF and will be those in excess of the 1987 base year for UNICEF House and in full for 845 United Nations Plaza. These are estimated to be $7.33 psf and $10.72 psf per year in 1995 for UNICEF House and 845 United Nations Plaza respectively.

(b) UNICEF House plus 633 Third Avenue:

(i) At UNICEF House a fixed annual rent (including the original 1987 base year operating expenses) of $32.50 psf for the term 1 January 1995 to 30 June 2026;

(ii) At 633 Third Avenue a fixed annual net rent of $22.00 psf for the term 1 January 1995 to 31 December 2023;

(iii) Operating expenses are to be paid by UNICEF and will be those in excess of the 1987 base year for UNICEF House and in full for 633 Third Avenue. These are estimated to be $7.33 psf and $8.54 psf per year in 1995 for UNICEF House and 633 Third Avenue respectively.

(c) UNICEF House plus 685 Third Avenue:

(i) At UNICEF House a fixed annual rent (including the original 1987

base year operating expenses) of $32.50 psf for the term 1 January 1995 to 30 June 2026;

(ii) At 685 Third Avenue a fixed annual net rent of $19.00 psf for the term 1 January 1995 to 31 December 2023;

(iii) Operating expenses to be paid by UNICEF will be those in excess of the 1987 base year for UNICEF House and in full for 685 Third Avenue. These are estimated to be $7.33 psf and $8.30 psf per year in 1995 for UNICEF House and 633 Third Avenue respectively;

(d) Included with the rental rates proposed above are:

(i) $35.00 psf toward the build out of any space occupied by UNICEF for any of the properties outside of UNICEF House;

(ii) $1.25 million towards the conversion of floors 14 and 15 if selected by UNICEF or to be placed toward tenant improvements for any of the other properties if floors 14 and 15 are not converted;

(iii) Basic building improvements in the amount of $5,625,000 for 845 UN Plaza, $5,975,000 for 633 Third Avenue, and $1,400,000 for 685 Third Avenue.

Premises Scenario (Option a.iii)

Twin Locations, UNICEF House owned and other Manhattan space rented

Premises Configuration and Location

UNICEF House, with the conversion of floors 14 and 15, having a total of 204,371 sq.ft. plus 333 East 38th Street with the following space configurations and availabilities:

38,000 sq.ft., the entire eighth floor, available immediately
40,000 sq.ft., the entire sixth floor,, available 1 January 2004
40,000 sq.ft., the entire fourth floor, available 1 July 2004
40,000 sq.ft. the entire fifth floor, available 1 July 2004
40,000 sq.ft., the entire ninth floor, available 1 May 2004

40,000 sq.ft., the entire tenth floor, available 1 November 2005.

Basic Deal Structure

(a) UNICEF House will be fixed at the annual rate of $32.00 psf including a 1987 base year for operating expenses, for a term 1 January 1995 to 30 June 2026;

(b) At 333 East 38th Street the annual base rent for the eighth floor is fixed at $23.25 psf for a term 1 January 1994 to 30 April 2004. The base rent includes a base year for operating expenses and real estate taxes equal to the first twelve months of the lease term, with UNICEF to pay any increases in the operating expenses and its proportional share of increase in the real estate taxes over the base year thereafter;

(c) UNICEF would have the option to rent the remaining space available at 333 East 38th Street at a rate equal to 95% of the fair market value, established as of the date of possession, upon providing the landlord with three years' notice prior to date of availability;

(d) For each of the first two floors that UNICEF exercises its option for additional space, UNICEF will be given a credit against its rental obligations under its present third floor lease of $1.00 psf per annum retroactive to the date of the option exercised.

Incentives to Basic Terms

(a) At UNICEF House, UNDC will pay $1.25 million toward the conversion of floors 14 and 15;

(b) At 333 East 38th Street, the landlord will pay $1.2 million toward tenant construction on the eighth floor. UNICEF will have the right to renew this lease for two additional five-year periods beyond its expiry in 2004 at a rate equivalent to 95% of the then fair market value; rent would not commence until four months after lease commencement for the eighth floor;

(c) Any additional costs for basic building improvements for any of the owned expansion properties in excess of the amounts proposed above will be paid by UNDC at no additional cost to UNICEF;

(d) Additional costs for the conversion of floors 14 and 15 at UNICEF House in excess of the $1.25 million offered by UNDC, will be funded by UNDC in exchange for an increase in the base rent at UNICEF House calculated at the rate $0.50 psf per year per $1.0 million of excess funds;

(e) Additional costs for any improvements to any of the expansion space, in excess of the $35 psf offered, will be paid by UNDC in exchange for an increase to UNICEF's base lease payment on all of the expansion space calculated at the rate of $0.60 psf for each $1.0 million of excess funds;

(f) All properties except 333 East 38th Street will be exempt from New York City real property taxes;

(g) Transfer of ownership of any of the selected owned properties will be effected upon maturity of the UNICEF House bonds which are presently scheduled to be paid on 1 July 2026. Transfer of ownership is conditional upon UNICEF or the United Nations occupying all of the office space and UNICEF maintaining its worldwide headquarters in New York City. For UNICEF House and 845 UN Plaza an additional condition would be that the transfer would be subject to approval under the City of New York Uniform Land Use Review Procedure ("ULURP") and approval of the financial terms of the transfer by the Mayor after a hearing;

(h) Elimination of obligation to pay up to $2.00 psf in additional annual rent at UNICEF House (article 40 of the UNICEF House lease);

(i) Should the Secretariat and other United Nations affiliated agencies opt at a future time to develop an expanded United Nations district in New York City, UNICEF would have the opportunity to join that district without the burden of dual lease obligations.

Guarantees

(a) Fixed annual rental rates provided for any of the expansion properties are guaranteed subject only to an increase in the currently estimated interest rate (6%) of the 30-year UNDC bonds needed to finance the acquisition of the selected property and related improvements;

(b) Occupancy of 40,000 sq.ft. by 1 August 1995 guaranteed if master lease purchase agreement is executed no later than 1 January 1994. If an extension of the lease at One Dag Hammarskjold Plaza is necessary UNDC would reimburse UNICEF

for up to $5.00 psf in rent payable by UNICEF on this space in excess of amounts that would be payable by UNICEF at 845 UN Plaza for any extension period.

Additional Clarification or Amendments to Offer

(a) By letter of 2 July 1993:

(i) The 35-space garage in Three United Nations Plaza would not be included in UNICEF's ownership interest;

(ii) The process for ULURP approval will be initiated upon execution of the necessary lease agreements;

(b) By letter of 23 July 1993:

(i) The reduction in UNICEF's base rent at UNICEF House would be retroactive to the date that is 45 days prior to the date on which UNICEF and UNDC sign the necessary agreements implementing the selected option;

(ii) If UNICEF selects the UNICEF House owned, other Manhattan rented option and chooses not to convert the 14th and 15th floors of UNICEF House, the annual base rent at UNICEF House would be reduced by $0.50 per square foot.

(c) By letters of 29 July and 4 August 1993:

(i) The annual base lease payment credit is increased from $481,000 to $1,081,000 and is applicable under any option selected by UNICEF to stay in Manhattan. Revised base lease payments under the twin headquarters option would be:

- $19.37 psf at 845 United Nations Plaza;
- $15.77 psf for the first five years and $14.77 psf thereafter at 633 Third Avenue;
- $13.15 psf for the first eleven years and $12.15 psf hereafter at 685 Third Avenue;

(ii) Revised base lease payments under the single location option would be:

- $19.60 psf for the first seven-and-a-half years and $20.67 psf thereafter at 633 Third Avenue;

- $16.70 psf for the first seven-and-a-half years and $17.72 psf thereafter at 685 Third Avenue;

(iii) Under the UNICEF House owned, other Manhattan rented option the credit will be applied to the base rent at UNICEF House contingent on all space needed by UNICEF for expansion between 1995 and 2026 being located within New York City;

(iv) UNICEF to have the option under any of the scenarios, beginning in 2005 and thereafter, to sublet for the balance of the term to the City of New York up to 75,000 square feet of any of the expansion space. However, if exercised, UNICEF would give up ownership of this space.

SUMMARY OF FIRM AND FINAL OFFER SUBMITTED BY THE CITY OF NEW ROCHELLE

(18 JUNE 1993)

Premises Scenario (Option B)

Single Location, Owned

Premises Configuration and Location

A to-be-constructed 17-story, 440,000 sq.ft. office building located on City of New Rochelle owned property known as Parcel 1A in the Cedar Street Urban Renewal Area being approximately 1.9 acres in size.

Basic Deal Structure

(a) The net base rent to be paid by UNICEF will be the sum of a land rent and building rent set out as follows:

(i) Land rent at $0.50 psf for years 1 through 10; $1.00 psf for years 11 through 20; and $1.60 psf for years 21 through 30. These rates are to be applied to the space physically occupied by UNICEF. The average annual land rent is $0.86 psf;

(ii) Building rent will be at varying per square foot rates per year which average $11.85 psf for the January 1995 to 31 December 2024 term;

(iii) Operating expenses will be fully paid by UNICEF and are estimated to be $6.20 psf per year in 1993, including tenant electric.

Premises Scenario (Option C)

Twin Location, New Rochelle owned and Manhattan rented

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Premises Configuration and Location

A to-be-constructed office building located on City of New Rochelle owned property known as Parcel 1A in the Cedar Street Urban Renewal Area being approximately 1.9 acres in size. Building size to be either 350,000 sq.ft., 400,000 sq.ft. or 420,000 sq.ft. at UNICEF's option. Manhattan rented property not identified.

Basic Deal Structure

(a) The net base rent to be paid by UNICEF in New Rochelle will be the sum of a land rent and building rent set out as follows:

(i) Land rent at $0.50 psf for years 1 through 10; $1.00 psf for years 11 through 20; and $1.60 psf for years 21 through 30. These rates are to be applied to the space physically occupied by UNICEF. The average annual land rent is:

$0.88 psf for the 420,000 sq.ft. building
$0.89 psf for the 400,000 sq.ft. building
$0.93 psf for the 350,000 sq.ft. building;

(ii) Building rent will be at varying per square foot rates per year for the January 1995 to 31 December 2024 term which average:

$12.05 psf for the 420,000 sq.ft. building
$12.12 psf for the 400,000 sq.ft. building
$12.29 psf for the 350,000 sq.ft. building;

(iii) Operating expenses will be fully paid by UNICEF and are estimated in 1993, including tenant electric, to be:

$6.38 psf for the 420,000 sq.ft. building
$6.57 psf for the 400,000 sq.ft. building
$6.38 psf for the 350,000 sq.ft. building.

Included in Rent Proposed

Construction of headquarters building will be in accordance with preliminary plans and specifications submitted. Development and construction costs also include $25 per usable square foot toward tenant work and $25 per gross square foot for

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fixed-in-place furnishings.

Additional Incentives

(a) Immediate unconditional building ownership subject only to the land lease, all of which is fully assignable at any time;

(b) Donation of fee ownership, upon the estimated closing date of 1 June 1994, to the National Register Building for public use as an international children's library;

(c) Land and building exemption from real estate taxes;

(d) Exemption from all sales and compensating use taxes on construction materials and various system costs within the building;

(e) Reduced rate parking at the adjacent municipal parking garage for all UNICEF employees;

(f) Free shuttle bus service between the United Nations in New York City and the proposed UNICEF headquarters in New Rochelle;

(g) Creation of a bus loop system terminating at the proposed UNICEF headquarters for employees living in Westchester County, and coordination of a new bus route and/or a van pool system for employees living in New York City;

(h) Unconditional transfer of fee ownership to the land (building will be owned by UNICEF upon its occupancy) upon expiration of the Master Lease on 31 December 2024.

Guarantees

(a) Land rent guaranteed;

(b) Building base rent guaranteed subject to:

(i) Change in interest rate for tax exempt bonds;

(ii) UNICEF approval of final plans and specifications;

(c) Space to be available for occupancy 1 August 1995 in new building or 40,000 sq.ft. will be made available in New Rochelle at an annual full service rate of $18 per square foot.

Additional Clarification or Amendments to Offer

(a) By letter of 1 July 1993:

(i) The net lease figure of $22 psf used to calculate residual is actually a gross rent including operating expenses;

(ii) If the interest rate is changed by 0.25% the rental rate would change by $0.27 to $0.29 psf p[er year depending on the building size selected;

(b) By letter of 29 July 1993:

(i) Sublease income calculated assuming UNICEF would not require more space in 2005 and that this space (about 55,000 sq.ft.) would continue to be sublet;

(ii) Reconfirmation that land rent is applicable only to space physically occupied by UNICEF, not by others;

(iii) Continuing real estate tax exemption even if UNICEF no longer owns or occupies the building, provided another qualifying entity of similar financial capability and reputation to that of UNICEF continues to own and use the property.

TABLE 1. SUMMARY OF TERMS OF FIRM AND FINAL OFFERS SUBMITTED 18 JUNE 1993

DESCRIPTION	NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION/UNITED NATIONS DEVELOPMENT CORPORATION						CITY OF NEW ROCHELLE			
Option	Single location, owned		Twin locations, UNICEF House, owned, other Manhattan owned			Twin locations, UNICEF House owned, other Manhattan rented	Single location, owned	Twin locations, New Rochelle owned, other Manhattan rented		
Property	633 Third Ave	885 Third Ave	845 UN Plaza	633 Third Ave	885 Third Ave	333 East 38th Street				
Space (sf)	439,456	445,094	241,481	262,351	268,481	38,000 up to 198,000[e]	440,000	350,000	400,000	420,000
Term	31 December 2023		31 December 2023			April 2004 with options to extend	31 December 2024			
Base Rent ($/sf/yr)	22.00	19.00	25.78	22.00	19.00	23.25	12.71[h]	13.22[i]	13.01[i]	12.83[i]
Rent Credit	0	0	$2.00/sf/yr	0		$294,500 one time	0	0	0	0
Estimated 1995 Operating Expenses ($/sf/yr)	8.54	8.20	10.72	8.54	8.30	Included in base rent. Base year operating expenses and real estate taxes	6.71	6.90	7.11	6.90
Rent Inclusives Build-Out Allowance ($)	15,360,960	15,663,290	8,451,135	9,182,285	9,396,835	1,200,000	20,300,000	15,950,000	16,375,000	19,450,000
Basic Building Improvements ($)	5,975,000	1,400,000	5,625,000	5,975,000	1,400,000	0	New building			
At UNICEF House										
Space (sf)	180,491[a]	180,491[b]	204,371[c]	180,490	180,491	180,491 to 204,371[f]	180,491			
Term	30 June 2002	30 June 2002	30 June 2026	30 June 2026	30 June 2026	30 June 2026	30 June 2002			
Base Rent ($/sf/yr)	32.50 to 41.50	32.50 to 41.50	32.00	32.50	32.50	32.50 to 32.00	32.50 to 41.50			
Estimated 1995 operating expenses ($/sf/yr)	7.33	7.33	7.33	7.33	7.33	7.33	7.33			
Build-out contribution ($)	0	0	1,250,000	1,250,000[d]	1,250,000[d]	1,250,000[g]	0			

NOTES

a. Need to retain 90,000 sf until 1999 until space is available at 633 Third Avenue; balance of excess space must be subleased by UNICEF.
b. Need to retain 22,000 sf until 1999 until space if available at 885 Third Avenue; balance of excess space must be subleased by UNICEF.
c. Includes conversion of floors 14 and 15 to office space.
d. Used toward build-out at expansion properties.
e. 38,000 sf available immediately; other space only available beginning in 2004. Terms only applicable for 38,000 sf.
f. Option to convert floors 14 and 15 to office space.
g. Used toward the conversion of floors 14 and 15 to office space, if exercised.
h. Averaged rent over term including land rent.
i. Averaged rent over term including land rent, not including rent for Manhattan premises.

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TABLE 2. DETAILS OF ADJUSTMENTS MADE TO FINAL OFFERS
(in US$ Millions)

DESCRIPTION	NYCEDC/UNDC		NYCEDC/UNDC				NEW ROCHELLE	NEW ROCHELLE
	Single Location, Owned		Twin Location, Owned			Twin Location, Owned/Rented	Single Location, Owned	Twin Location
	633 Third	685 Third	3 UN & 845 UN Plaza	3 UN & 633 Third	3 UN & 685 Third	3 UN owned, other Manhattan rented	New Rochelle owned	New Rochelle owned, other Manhattan rented
Architectural & Engineering	6.7	12.3	0	4.0	7.3	0	0	0
Residual Value	5.6	17.7	(30.7)	(25.6)	(18.1)	(8.4)	89.9	81.8
Sublease Income	0	0	0	0	0	0	19.8	6.2
Indirect Costs/(Benefits)	(5.8)	(5.8)	(0.4)	(0.4)	(0.4)	0.0	3.3	7.9
Clarifications and Additions	(11.8)	(9.1)	(25.8)	(50.7)	(48.4)	n.a.	(67.2)	(0.2)
NET ADJUSTMENT TO JUNE PROPOSAL (XX) = reduction in costs	(5.3)	15.1	(56.9)	(72.7)	(59.6)	n.a.	45.8	95.7

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TABLE 3. SUMMARY OF ARCHITECTURAL & ENGINEERING ASSESSMENT

(RATING: Good=5 4 3 2 1=Poor; NR=Not Rated)

TOPIC: / PROPERTY:	UNICEF House (Floors 14 & 15 only)	845 UN Plaza[a]	633 Third Ave	685 Third Ave	New Rochelle[c]
Architectural					
• Loss factor	19%	12.5%[b]	22.7%	22% to 39%	13.9%
• Egress corridor[d]	9%	13%	6%	10%	5%
• Footprint	Rectangular	Rectangular	Rectangular	Irregular	Irregular
• Comparison to UNICEF House floor area	100%	77%	143%	53% to 169%	200%
• Flexibility of floor area	3	5	4	2	5[e]
• Efficiency of floor	3	4	4	2	2
Engineering					
• Mechanical system	N.R.	N.R.	3	2	N.R.
• Electrical system	"	"	2	3	"
• Telecommunication system	"	"	4	2	"
• Structural system	"	"	3	3	"
• Building enclosure	"	"	3	3	"
• Elevators	"	"	2	2	"

Notes

a. Not available for site inspection.
b. Does not reflect approximately 40,000 sf of non-functional office space.
c. Review of conceptual plans and specifications, engineering assessment inappropriate at this time.
d. Expressed as a percent of useable floor space needed to provide egress for full floor occupant.
e. Can be designed as required.

TABLE 4. SUMMARY OF ASSUMPTIONS USED FOR RESIDUAL VALUE ANALYSIS

PROPERTY- DESCRIPTION↓	UNICEF House	845 UN Plaza	633 Third	685 Third	New Rochelle
1995 Effective Gross Rent as Submitted in June ($/sq.ft.)	27.50	27.50	27.50	27.50	22.00
Reason for Upward Adjustment	• Built 1987 • Prime location • Efficient and flexible floors	• Prime location • Undeveloped air rights • Efficient and flexible floors	• Efficient and flexible floors	• None	• Built to suit
Reason for Downward Adjustment	• None	• Age	• Age	• Poor floor efficiency and configuration	• Suburban market
Adjusted 1995 Effective Gross Rent ($/sq.ft.)	32.00	30.50	27.50	26.00	21.00
1995 Estimated Expenses and Real Estate Tax ($/sq.ft.)	14.33	17.72	15.54	15.20	10.61
1995 Net Rent ($/sq.ft.)	17.67	12.78	11.96	10.80	10.39
2026 Net Rent ($/sq.ft.) Applying 4%/Yr Escalation	59.60	43.11	40.34	36.43	35.05
2026 Value ($/sq.ft.) Applying 8% Return	745.04	538.86	504.28	455.37	438.09
Less Reserve for Lease-Up, Commission and Vacancy ($/sq.ft.)	227.56	164.59	154.02	139.09	133.74
2026 Net Value ($/sq.ft.)	517.48	374.27	350.26	316.28	304.35
Square Feet Total	204,371	241,461	449,900 265,850	470,067 277,767	400,000 440,000
2026 Value (US$ Millions)	105.8	90.4	157.6 93.1	148.7 87.9	121.7 133.9
Present value @ 10% (US$ Millions)	5.0	4.3	7.5 4.4	7.0 4.2	5.8 6.3
Present Value as Submitted (US$ Millions)	3.6	4.2	7.7 4.6	7.9 4.7	9.6 10.6

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TABLE 5. SUMMARY OF SURPLUS SPACE AND SUBLEASE INCOME

	NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION/UNITED NATIONS DEVELOPMENT CORPORATION					CITY OF NEW ROCHELLE			
SURPLUS SPACE (SQ.FT.)	*Single Location*		*Twin Locations*			*Single Location*	*Twin Locations*		
	633 Third	685 Third	3 UN/ 845 UN	3 UN/ 633 Third	3 UN/ 685 Third	440,000 sf	350,000 sf	400,000 sf	420,000 sf
1995	0	5,108	95,850	10,890	5,108	---------- 158,000 ----------			
2000	101,700	42,840	110,610	108,000	42,840	---------- 113,000 ----------			
2005	50,400	54,270	59,310	56,610	11,430	---------- 56,500 ----------			
2010	0	0	0	0	0	---------- 0 ----------			
SUBLEASE INCOME (US$ Million)									
Nominal Value	16.7	9.5	34.6	23.2	11.0	---------- 23.8 ----------			
Present Value	6.3	3.8	17.8	9.4	4.2	---------- 13.7 ----------			

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TABLE 6. SUMMARY OF INDIRECT PREMISES-RELATED COSTS AND BENEFITS

(In millions of United States Dollars for the Period 1995 to 2026)

Description	New York City Single Location	New York City Twin Location	New Rochelle Single Location	New Rochelle/New York City Twin Location
Staff Related				
• Headcount	less 5	less 2	less 4	less 1[a]
• Nominal Value	(5.8)	(0.4)	(3.3)	3.1
• Present Value	(1.3)	(0.1)	(0.7)	0.7
Telephone and Computer Related				
• Nominal Value	0.2[b]	0.0	0.0	4.8
• Present value	0.1	0.0	0.0	1.4
Transportation				
• Nominal Value	0.0	0.0	0.0	0.0
• Present value	0.0	0.0	0.0	0.0

Notes:

a. See text for explanation.
b. See text for explanation.

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TABLE 3

FINANCIAL SUMMARY OF OPTIONS EXPRESSED IN NOMINAL TERMS

(IN MILLIONS OF UNITED STATES DOLLARS FOR THE PERIOD 1995-2020)

DESCRIPTION	UNDG/NEW YORK CITY PROPOSALS					NEW ROCHELLE PROPOSALS			STATUS QUO
BOARD DESIGNATION	a.1	a.2			a.3	b	c		
NAME	SINGLE LOCATION OWNED		TWIN LOCATIONS OWNED/RENTED			SINGLE LOCATION (OWNED)	TWIN LOCATIONS OWNED/RENTED		MULTIPLE LOCATIONS RENTED
STATUS OF PROPERTY			UNICEF HOUSE - Plus				NEW ROCHELLE - Plus		UNICEF HOUSE - Plus
LOCATION(S)	699 THIRD AVE	685 THIRD AVE	845 UN PLAZA	699 THIRD AVE CONDOMINIUM	685 THIRD AVE CONDOMINIUM	MANHATTAN RENTED	NEW ROCHELLE	999 E 36TH STREET RENTED	UNICEF HOUSE RENTED	OTHER MANHATTAN RENTED
SPACE CONFIGURATION (IN sq. ft.)	449,800	470,087	204,371 / 201,461	180,491 / 269,596	180,491 / 277,795	180,491 / 39,000 (NOTE 4)	440,000	400,000 / 40,000	440,000 / 40,000	180,491/40,000/96,779
FIRM COSTS/(BENEFITS)										
(EXISTING OBLIGATIONS (Note 1)										
UNICEF HOUSE	66.4	66.4	66.4	66.4	66.4	66.4	66.4	66.4	66.4	66.4
333 E 36TH ST	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8
ONE DAG HAMMARSKJOLD	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
SUBTOTAL EXISTING OBLIGATIONS	79.2	79.2	79.2	79.2	79.2	79.2	79.2	79.2	79.2	79.2
NEW OBLIGATIONS										
UNICEF HOUSE	0.0	0.0	210.6	201.4	201.4	168.9	0.0	0.0	0.0	0.0
333 E 36TH ST	0.0	0.0	0.0	0.0	0.0	16.3	0.0	0.0	0.0	0.0
ONE DAG HAMMARSKJOLD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NEW LOCATION(S) (Note 2)	506.9	476.6	267.5	257.6	243.7	0.0	362.7	342.6	342.6	0.0
SUBTOTAL NEW OBLIGATIONS	506.9	476.6	487.3	468.0	445.1	174.2	362.7	342.6	342.6	0.0
DIRECT COSTS/(BENEFITS)										
UNICEF HOUSE	0.0	0.0	(1.1)	(1.1)	(1.1)	(1.1)	0.0	0.0	0.0	0.0
NEW LOCATION(S) (Note 3)	(53.9)	(50.7)	0.0	(29.0)	(28.0)	0.0	0.0	0.0	0.0	0.0
SUBTOTAL DIRECT COSTS/(BENEFITS)	(26.9)	(26.7)	(1.1)	(29.0)	(28.0)	(1.1)	0.0	0.0	0.0	0.0
TOTAL FIRM COSTS/(BENEFITS)	622.2	629.1	609.7	618.3	496.2	252.3	441.4	421.8	421.8	79.2
OTHER RENT AND SOFT COSTS/(BENEFITS)										
OTHER RENT										
SUBTOTAL OTHER RENT	0.0	0.0	0.0	0.0	0.0	347.0	0.0	47.0	97.0	486.0
SOFT COSTS/(BENEFITS)										
SUBLEASE INCOME										
UNICEF HOUSE	(18.2)	(52.6)	0.0	0.0	0.0	0.0	(52.6)	(52.6)	(75.5)	0.0
333 E 36th ST	(7.0)	(7.0)	(7.0)	(7.0)	(7.0)	0.0	(7.0)	0.0	(7.0)	0.0
NEW LOCATION(S)	(16.7)	(9.3)	(54.9)	(52.7)	(11.2)	0.0	(29.3)	(29.3)	(29.3)	0.0
SUBTOTAL SUBLEASE INCOME	(42.0)	(68.9)	(61.9)	(59.7)	(18.2)	0.0	(88.9)	(81.9)	(111.8)	0.0
INDIRECT COSTS/(BENEFITS)										
STAFF	(3.8)	(3.8)	(8.4)	(8.4)	(8.4)	0.0	(8.4)	(7.1)	(7.1)	0.0
OPERATIONS	(2.2)	(2.2)	(8.0)	(8.0)	(8.0)	0.0	(8.0)	(7.8)	(7.8)	0.0
SUBTOTAL INDIRECT COSTS/(BENEFITS)	(6.0)	(6.0)	(16.4)	(16.4)	(16.4)	0.0	(16.4)	(14.9)	(14.9)	0.0
RESIDUAL VALUE										
UNICEF HOUSE	0.0	0.0	(100.8)	(100.8)	(100.8)	(100.8)	0.0	0.0	0.0	0.0
NEW LOCATION	(157.6)	(148.7)	(99.2)	(99.2)	(85.8)	0.0	(156.4)	(124.7)	(124.7)	0.0
SUBTOTAL RESIDUAL VALUE	(157.6)	(148.7)	(198.0)	(198.0)	(186.7)	(100.8)	(156.4)	(124.7)	(124.7)	0.0
TOTAL OTHER RENT AND SOFT COSTS/(BENEFITS)	(203.1)	(203.6)	(276.3)	(229.5)	(312.1)	261.2	(209.8)	(122.6)	(110.1)	606.0
TOTAL COSTS/(BENEFITS)	419.1	424.5	373.3	388.8	383.1	513.5	431.4	299.2	311.7	685.1

Notes

1 Remaining lease obligations beginning 1995 for UNICEF House, 333 East 38th street and One Dag Hammarskjold Plaza

2 Cost represents full obligations, without sublease income

3 Income derived from subleasing new space

4 Please refer to text explanation of table. This option is for initial space of only 219,491 sq. ft.; balance is rented and the cost of renting is shown under "Other Rent"

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TABLE 8

FINANCIAL SUMMARY OF OPTIONS EXPRESSED IN PRESENT VALUE TERMS

(IN MILLIONS OF 1995 UNITED STATES DOLLARS FOR THE PERIOD 1995-2020)

DESCRIPTION	UNDC/NEW YORK CITY PROPOSALS					NEW ROCHELLE PROPOSALS			STATUS QUO
BOARD DESIGNATION	a/		a/		a/	b/	c/		
NAME	SINGLE LOCATION OWNED		TWIN LOCATIONS OWNED/RENTED			SINGLE LOCATION OWNED	TWIN LOCATIONS OWNED/RENTED		MULTIPLE LOCATIONS RENTED
STATUS OF PROPERTY			UNICEF HOUSE - Plus		TWIN LOCATIONS OWNED/RENTED UNICEF HOUSE - Plus		NEW ROCHELLE - Plus		UNICEF HOUSE - Plus
LOCATION(S)	633 THIRD AVE	885 THIRD AVE	845 UN PLAZA	633 THIRD AVE CONDOMINIUM	885 THIRD AVE CONDOMINIUM	MANHATTAN RENTED	NEW ROCHELLE	633 THIRD AVE RENTED	UNICEF HOUSE RENTED	OTHER MANHATTAN RENTED
SPACE CONFIGURATION (in sq. ft.)	440,800	470,067	204,571 / 241,484	180,481 / 265,854	180,481 / 277,765	180,481 / 58,000 (NOTE 4)	440,000	400,000 / 40,000	440,000 / 40,000	180,481/40,000/58,729
FIRM COSTS/(BENEFITS)										
EXISTING OBLIGATIONS (Note 1)										
UNICEF HOUSE	44.8	44.8	44.8	44.8	44.8	44.8	44.8	44.8	44.8	44.8
333 E 38TH ST	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
ONE DAG HAMMARSKJOLD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SUBTOTAL EXISTING OBLIGATIONS	52.3	52.3	52.3	52.3	52.3	52.3	52.3	52.3	52.3	52.3
NEW OBLIGATIONS										
UNICEF HOUSE	0.0	0.0	36.7	29.5	29.5	29.5	0.0	0.0	0.0	0.0
333 38TH ST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ONE DAG HAMMARSKJOLD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NEW LOCATION(S) (Note 2)	156.0	107.1	79.8	65.1	65.1	0.0	136.8	85.1	85.1	0.0
SUBTOTAL NEW OBLIGATIONS	156.0	107.1	116.6	94.6	94.6	29.5	136.8	85.1	85.1	0.0
DIRECT COSTS/(BENEFITS)										
UNICEF HOUSE	0.0	0.0	(1.0)	(1.1)	(1.1)	(1.1)	0.0	0.0	0.0	0.0
NEW LOCATION(S) (Note 3)	(29.1)	(22.0)	(0.6)	(16.5)	(20.1)	0.0	0.0	0.0	0.0	0.0
SUBTOTAL DIRECT COSTS/(BENEFITS)	(29.1)	(22.0)	(1.6)	(17.4)	(21.3)	(1.1)	0.0	0.0	0.0	0.0
TOTAL FIRM COSTS/(BENEFITS)	164.0	138.3	170.2	134.4	126.4	87.1	184.1	148.2	148.2	52.3
OTHER RENT AND/OR SOFT COSTS/(BENEFITS)										
OTHER RENT										
SUBTOTAL OTHER RENT	0.0	0.0	0.0	0.0	0.0	61.7	0.0	7.0	9.2	111.5
SOFT COSTS/(BENEFITS)										
SUBLEASE INCOME										
UNICEF HOUSE	(51.0)	(22.7)	0.0	0.0	0.0	0.0	(37.8)	(37.8)	(33.7)	0.0
333 E 38th ST	(2.7)	(3.0)	(2.7)	(2.7)	(2.7)	0.0	(2.7)	0.0	(2.7)	0.0
NEW LOCATION(S)	0.0	(3.8)	(27.0)	(36.4)	(42.5)	0.0	(13.7)	(13.7)	(13.7)	0.0
SUBTOTAL SUBLEASE INCOME	(53.7)	(29.7)	(29.7)	(39.1)	(45.2)	0.0	(54.2)	(51.5)	(50.1)	0.0
INDIRECT COSTS/(BENEFITS)										
STAFF	(1.3)	(1.3)	0.0	0.0	0.0	0.0	0.7	0.7	0.7	0.0
OPERATIONS	(0.1)	(0.1)	0.0	0.0	0.0	0.0	0.0	1.4	1.4	0.0
SUBTOTAL INDIRECT COSTS/(BENEFITS)	(1.4)	(1.4)	(0.1)	(0.1)	(0.1)	0.0	(0.7)	2.1	2.1	0.0
RESIDUAL VALUE										
UNICEF HOUSE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NEW LOCATION	(7.5)	(7.4)	(4.5)	(4.4)	(4.4)	0.0	(5.9)	(5.9)	(5.9)	0.0
SUBTOTAL RESIDUAL VALUE	(7.5)	(7.4)	(4.5)	(4.4)	(4.4)	0.0	(5.9)	(5.9)	(5.9)	0.0
TOTAL OTHER RENT AND SOFT COSTS/(BENEFITS)	(29.9)	(38.1)	(30.8)	(22.6)	(17.2)	56.7	(42.0)	(28.3)	(25.8)	111.5
TOTAL COSTS/(BENEFITS)	134.0	100.2	139.3	111.8	109.2	143.8	118.1	120.3	122.7	164.7

Notes

1 Remaining lease obligations beginning 1995 for UNICEF House, 333 East 38th street and One Dag Hammerskjold Plaza
2 Cost represents full obligations, without sublease income.
3 Income derived from subleasing new space.
4 Please refer to text explanation of table. This option is for initial space of only 218,481 sq. ft., balance is rented and the cost of renting is shown under "Other Rent"

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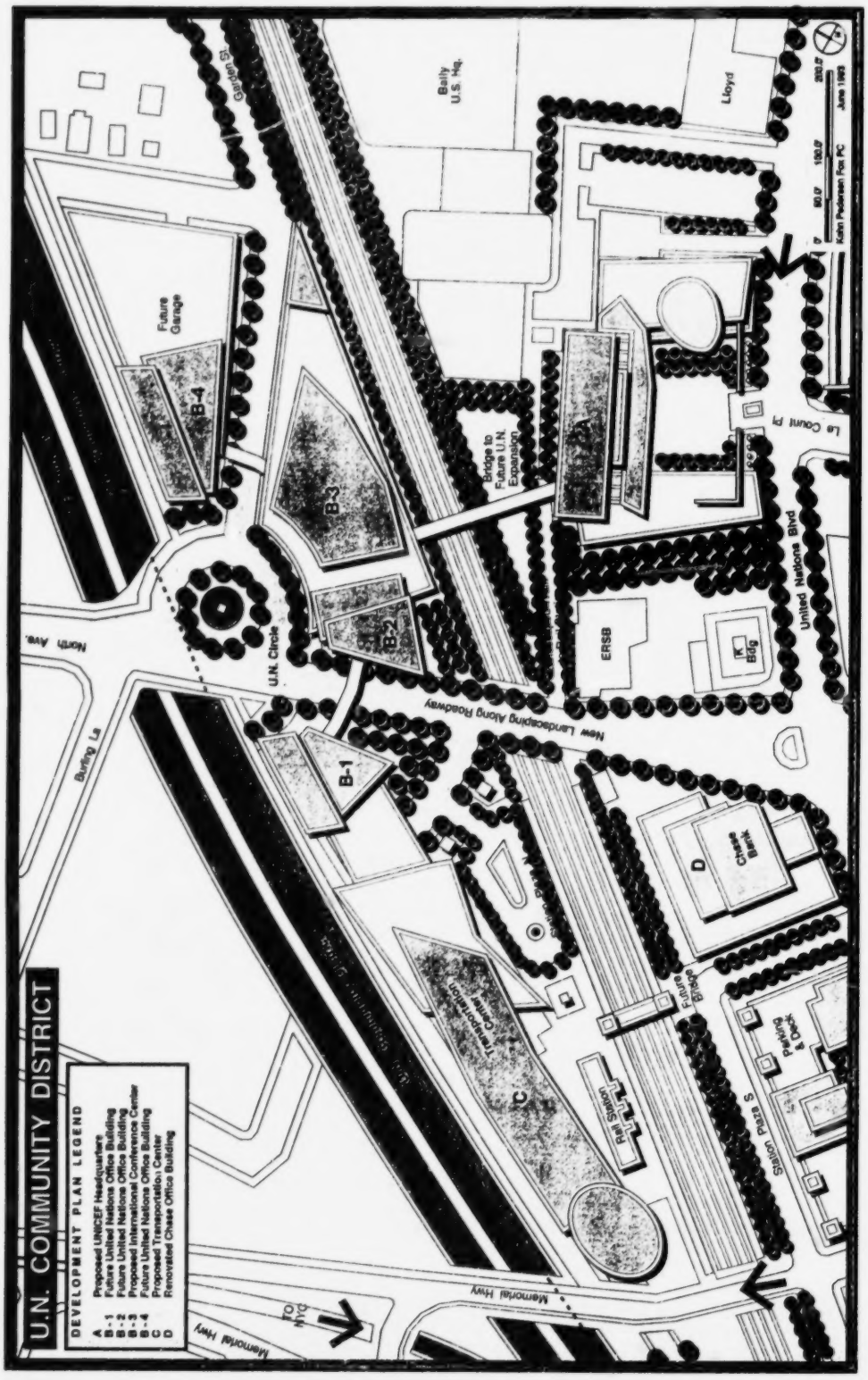
U.N. COMMUNITY DISTRICT
DEVELOPMENT PLAN LEGEND
A Proposed UNICEF Headquarters
B-1 Future United Nations Office Building
B-2 Future United Nations Office Building
B-3 Proposed International Conference Center
B-4 Future United Nations Office Building
C Proposed Transportation Center
D Renovated Chase Office Building
Memorial Hwy
FDR Dr.
North Ave.
Burling Ln
U.N. Circle
Garden St
Future Garage
B-4
B-3
B-2
B-1
Bally U.S. Hq.
Lloyd
Bridge to Future U.N. Expansion
ERSB
K Bldg
United Nations Blvd
New Landscaping Along Roadway
Transportation Center
C
Rail Station
Future Bridge
D
Chase Bank
Station Plaza S
Parking Deck
La Court Pl
John Pedersen Fox PC
June 1993

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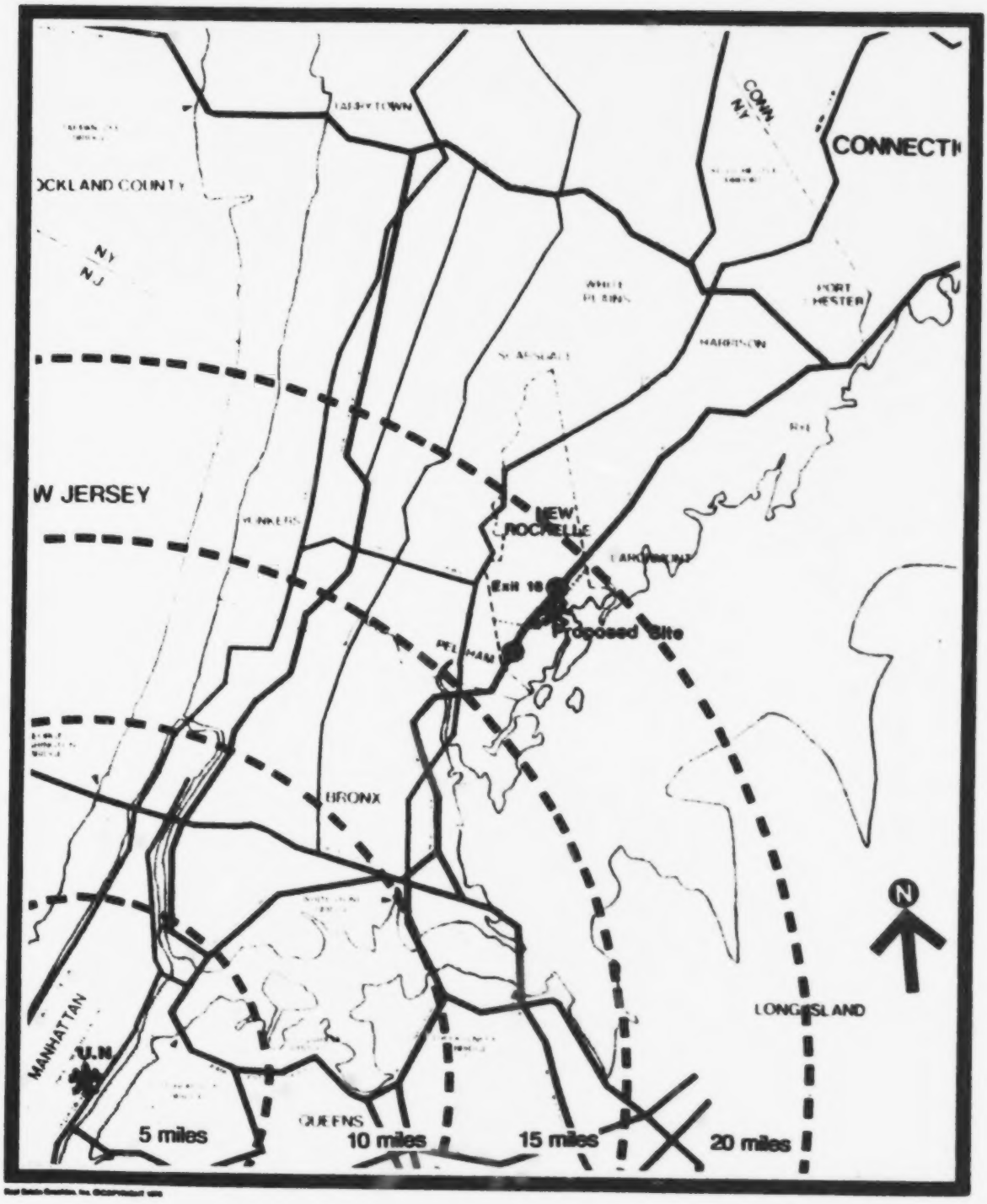

NEW ROCHELLE LOCATION MAP

Richard Ellis Inc.

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UNICEF HEADQUARTERS
New Rochelle, New York